DOCUMENT RESUME

ED 419 284 EA 029 037

| | |
|---|---|
| TITLE | An Agenda for Equitable and Cost-Effective School Finance Reform: Findings Resulting from the Comptroller's Community Forums on Alternatives for Financing Education. |
| INSTITUTION | New York State Office of the Comptroller, Albany. |
| PUB DATE | 1996-10-00 |
| NOTE | 72p. |
| PUB TYPE | Reports - Research (143) |
| EDRS PRICE | MF01/PC03 Plus Postage. |
| DESCRIPTORS | Change Strategies; Educational Equity (Finance); *Educational Finance; Elementary Secondary Education; *Finance Reform; Financial Problems; Financial Support; *Policy Formation; Property Taxes; *School District Spending; School Taxes; State Government; State Surveys |
| IDENTIFIERS | *New York |

ABSTRACT

To explore the issue of school finance reform, a series of community forums held across the state were carried out, the results of which are presented. The paper provides some major findings: a basic school finance system already exists, namely, property taxes supplemented by equalized state aid; the magnitude of the school property tax means replacement would require a major increase in state taxes; the property tax can be made less objectionable; and equity should be addressed through a reformed state school-aid formula. At least five recommendations are made to improve equitable funding in education: the formula should be organized along the lines of a block-grant system; the current complex system of categorical aids and expenditure requirements fails to ensure adequate services; too much emphasis is placed on reimbursing expenses in the current system; any formula should include an explicit adjustment for regional cost differences; and school districts that meet educational standards should be free to use their state aid as they choose. A description of the state's enacted budgetary changes in school aid and an examination of the relationship between school finance and the budget process are also provided. (RJM)

**********
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
**********

ED 419 284

EA

# An Agenda for Equitable and Cost-Effective School Finance Reform

*Findings Resulting from the Comptroller's Community Forums on Alternatives for Financing Education*

*October 1996*

**H. Carl McCall**
**State Comptroller**

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY
R. M. Malan
TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

EA 029 037

Additional copies of this report
may be obtained from:

Office of the State Comptroller
Public Information Office
A. E. Smith State Office Building
Albany, New York 12236

(518) 474-4015

To help reduce printing costs, please notify the Office of Fiscal Research and Policy Analysis at (518) 474-4481 if you wish to have your name removed from our mailing list, or if your address has changed.

H. CARL MCCALL
STATE COMPTROLLER

A. E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

STATE OF NEW YORK
**OFFICE OF THE STATE COMPTROLLER**

October 1996

*To the People of the State of New York:*

A little over a year ago, I initiated a study of school finance issues. This is a topic that is on people's minds wherever I go and I wanted to encourage an informed public discussion. I held a series of community forums across the State, issued several papers on the topic and articulated the principles that I think are most important as we move toward reform. As promised, I am now reporting back on the results of this study.

At my forums experts and ordinary citizens alike offered a wealth of interesting ideas and perspectives. But as those who attended any of these meetings already know, it is an understatement to say that no consensus emerged. Simply put, New Yorkers are very divided on this issue. We seem to have fallen into competing camps: there are tax revolters vs. education advocates, management vs. labor concerns, and then there are divisions of geography and wealth. The very difficult task ahead is to find productive common ground among these diverse interests.

The opinions voiced at the forums were deeply held and thoughtfully expressed, and there is truth in every perspective. On that premise, I believe we must develop a balanced approach to reform, and the principles I have articulated attempt to strike such a balance. In shortest form, those principles are that we should address equity, enhance cost-effectiveness and accountability, and reform our property tax system.

I stress the need for balance because many of the "solutions" recently offered have been decidedly *un*balanced. For example, although cost-effectiveness must be a paramount concern, simply cutting spending or imposing draconian limits on schools is not the answer. Neither, however, is mindlessly throwing money at them. And any solution must address equity, because the current system is unfair to those children and taxpayers who happen to have fewer resources within their school districts. We should not let the concern for cost control blind us to the essential need for an adequate education system or the moral imperative to treat our children fairly and decently regardless of where they live.

The solution to our school finance dilemma is not an entirely new method of financing schools. Rather, I believe the answer lies in improving the basic system we already have: local funding through property taxes supplemented by equalized state aid. Virtually every state uses some variant of this approach and when working properly, it is not a bad system. If we could strike a better balance between state aid and property taxes and reform them both, it truly could be ideal, providing both equity and local control. The current school aid formula is complex, jumbled and in need of a

complete overhaul, but the original idea of supplementing local resources with equalized state aid is very sound.

A thorough analysis convinces me that the property tax is here to stay — we simply cannot eliminate it. The State does not have the resources to accomplish it, and no viable local alternative exists. Although income taxes are in many respects a better way to raise revenues, I do not believe there is any consensus to substantially increase the income tax or forgo the current cuts in order to reduce local taxes.

Given that we cannot eliminate the property tax, we must reform its administration and provide targeted relief to those most adversely affected by its regressive nature. We must also reverse the recent trend of increasing reliance on the property tax as a funding source. With these improvements, it is a method of funding we can live with.

There was much discussion at my forums about whether the current state-level tax cuts, by constricting local aid, are having the effect of raising local property taxes. This is a critical question and it is something that should have been better evaluated *before* we enacted huge multiyear tax cuts. Clearly taxes are a vital factor in our competitiveness with other states and the world at large, but it is our local taxes which are most seriously out of line. State-level cuts which lead to local tax increases may worsen rather than improve our competitive situation. They also result in a more regressive and narrowly based system which cannot effectively align resources with needs.

We must develop a long-term approach to the issue of equity. My recommendation is to reform the aid formula and provide increased state aid over time to the districts most in need. Such a long-term "leveling up" is the best and also perhaps the only achievable method for addressing equity. There are many other methods that could be technically effective, including a dramatic redistribution of aid, regional tax bases or even full state funding, but these options quite frankly are unrealistic. All of these approaches have been advocated in the past, sometimes by very prominent task forces or commissions, but they have never been enacted, nor are they likely to be.

I do not advocate increasing state aid blindly. We must at the same time focus intently on inefficiencies and work to make the entire education system more accountable and focused on standards and results. We are already moving in this direction and I support Commissioner Mills' efforts to refocus the Education Department's mission along these lines. This year's budget also contained a number of positive initiatives in this area and I will monitor their implementation closely. Lastly, school districts must continue to look to shared services, consolidations and mergers to improve effectiveness.

The current school aid formula should not be relied upon to target the funds as we move toward equity — there are simply too many problems with it. This formula has been cobbled together piecemeal over the years, through our deeply flawed budget process. Each year new manipulations occur, usually in the middle of the night, to produce the politically desired "shares" of aid on the computer run. One would not expect the product of such a process to be rational or equitable, and it is not. The current system is in dire need of substantial redesign — so substantial in fact, that we almost have to start over. We should not let this system continue for another year.

While I do not have a complete new formula to propose, I do have specific criticisms and recommendations. In line with the traditional mission of the Comptroller's Office, most of these focus on ways to make the aid system more flexible, less administratively cumbersome and potentially more cost-effective. Naturally, there are other issues to be addressed in areas where my Office does not have great experience, such as whether the formula appropriately directs aid to pupil needs.

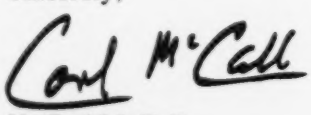
We need to work toward consensus on reform, acknowledging all the while that there are no easy answers. I hope to move the debate forward and the approach I advocate is a responsible and balanced framework for reform. To those who hoped for a more immediate or dramatic solution, I would offer that my recommendations are based on a judgment about what is realistically achievable.

I am aware of the inherent difficulty in reaching consensus on this topic, but we should not let this dissuade us from pursuing a solution. I stand ready to work with the Regents, the Executive, the Legislature, the education community, and all others concerned with reform of our finance system. But we need to do more than study reform and advocate for it, we need to accomplish it. Toward this end, I would support a special commission approach to arriving at a new aid formula, modeled after the federal "base-closing" commission. Any such effort should be directed not just to study the issue, but to arrive at a reformed formula.

A real solution to equity, as I have outlined it, will require additional resources over the long term and I acknowledge that finding those resources will be extremely difficult. As I have shown in many reports, our State is in extremely poor financial condition. Never the less, I am laying out in this report what I think should be done. This agenda for reform is flexible, and even within the current financial constraints I believe we could be doing a much better job than we are. However, if we cannot even begin to address equity because the State is too financially strapped, then that condition itself should be the issue. For if our State is in so poor a condition that we cannot support basic functions like education in a rational and fair manner, then clearly something is very wrong.

In fact, the inability to effectively address school finance reform is deeply rooted in the failings of the current budget process. Education is one of many areas where a long-term focus is essential if we are ever to progress. The issues are complex and the funding needs cannot be dealt with through our stop-gap, one-year-at-a-time approach to budgeting. If the budget process performed as it should, we would arrive at rational policy decisions predicated on the true long-term interests of the State. We would not enact tax cuts without any plan to pay for them and without any thought to the impact on local needs and taxes. I will continue to stress budget reform until it is achieved, because without it, we will not be able to resolve the long-standing problems confronting our State and we will continue to fall short of our full potential.

Sincerely,



H. Carl McCall
Comptroller

# TABLE OF CONTENTS

COMPTROLLER'S LETTER

EXECUTIVE SUMMARY ..... 1

COMPTROLLER'S SCHOOL FINANCE PRINCIPLES ..... 4

OVERVIEW ..... 5

PROPERTY TAX & OTHER REVENUES ..... 7
- Impractical Alternatives ..... 7
- Practical Reforms ..... 9

EQUITY ..... 11
- Discussion ..... 11
- Potential Redistribution under the Current Formula ..... 14
- Toward A Solution ..... 17

SCHOOL AID FORMULA ISSUES ..... 20
- Categorical Aids ..... 20
- Expenditure Reimbursement ..... 21
- The Concept of a Block Grant Approach ..... 23
- Regional Costs ..... 24
- Tax Effort Formulas ..... 25
- Maintenance of Effort ..... 27
- Mergers, Consolidation and Shared Services ..... 29

SCHOOL FINANCE AND THE BUDGET PROCESS ..... 31
- The Current Process ..... 31
- How Reform Would Help ..... 32
- Particular Issues for Schools ..... 32

HISTORICAL SUMMARY OF REFORM EFFORTS ..... 34
- Commission on Educational Structure, Policies and Practices (1993) ..... 34
- Salerno Commission (1988) ..... 35
- Rubin Task Force (1982) ..... 37
- Fleischmann Report (1973) ..... 39
- Niefendorf Committee (1963) ..... 39
- Conclusions ..... 40

APPENDICES:

SCHOOL FINANCE ACTIONS IN THE 1996-97 BUDGET ..... 42
Overview ..... 42
Aid Payment Practices ..... 45

COMPARISON OF BUDGET ACTIONS AND COMPTROLLER'S PRINCIPLES ..... 48

OTHER STATES ..... 52
Comparative National Statistics ..... 52
Activities in Selected States ..... 54

BIBLIOGRAPHY ..... 56

STATISTICAL SUPPLEMENT ..... 58

## EXECUTIVE SUMMARY

This report presents the Comptroller's findings in the vital area of school finance reform. The Comptroller's reform agenda is the product of a series of community forums held across the State and more than a year of study. The school finance principles the Comptroller articulated last February are reaffirmed, but this report also arrives at some major findings and makes a series of recommendations on how the current system should be altered.

The Comptroller's earlier discussion paper reviewed the many possible approaches to reform, whereas this report arrives at a recommended long-term approach, and thus rules out many of those options. Following is a summary of the major findings and recommendations:

✓ The basic school finance system already existing — property taxes supplemented by equalized state aid — is here to stay. Policy makers should therefore refocus on the difficult and long-standing issues of school aid formula and property tax reform.

✓ The sheer magnitude of the school property tax (approximately $15 billion currently) means replacement would require a *major* increase in state taxes, damaging New York's competitiveness with other states. For example, raising $15 billion in revenues is equivalent to doubling the current state income tax or raising the sales tax by 10 cents on the dollar.

✓ Since it cannot be replaced, the property tax must be made less objectionable through a three-pronged approach:

- Reform its administration by requiring periodic reassessment, modern appraisal methods, and a uniform and current value standard.
- Reverse the recent trend of increasing reliance on property taxes as a funding source.
- The regressivity of the tax should be eased for those most adversely affected by expanding the "circuit-breaker" credit in the state income tax.

✓ Equity should be addressed through a reformed state aid formula, increasing aid over time to the areas most in need.

- Among all the options for reforming the finance system, a long-term leveling up is probably the best approach and also the only one that is realistically achievable. Other options such as "Robin Hood" redistribution proposals, new revenue sources, or regional tax bases are not practical or likely to occur.
- Equity cannot be achieved immediately, but should be accomplished over a period of years. This approach will require a long-term focus which the current state budget process does not have. Budget reform is therefore probably a prerequisite to real school finance reform.

- The current aid formula needs to be completely redesigned and should not be relied upon to target aid for a long-term solution to equity.

In addition to criticism of the current aid system and a discussion of the equity issue, this report contains a number of specific recommendations for altering the aid formula. These recommendations focus on ways to make the aid system more flexible, less administratively cumbersome and potentially more cost-effective — areas where the Comptroller's perspective may be most helpful.

✓ The formula should be simplified and organized along the lines of a "block grant" system, thereby giving school districts greater flexibility with their aid and greater incentives to economize.

✓ The current complex system of categorical aids and expenditure requirements fails to ensure adequate services at the same time it complicates administration and drives inefficiencies.

✓ Too much emphasis is placed on reimbursing expenses in the current system, resulting in cost escalation at both the state and local levels. Formulas that reimburse expense provide the wrong incentives. They reward higher spending and provide a disincentive to efficiencies, because if you spend more you get more aid and if you spend less, you get less. These aid formulas are also subject to continual aid claim revisions, causing budget problems for the State.

✓ The formula should include an explicit adjustment for regional cost differences.

✓ School districts that meet educational standards should be free to use their state aid as they choose, including for tax relief. In districts where standards are not met, however, mechanisms should be considered to ensure that any additional aid provided is used to improve programs.

The report includes a description of the enacted budget's changes in school aid, as well as a comparison between the enacted budget and the Comptroller's *Principles for School Finance Reform* released in February.

✓ Many of the largest aid increases provided to school districts this year appear to be anomalous; they are driven by glitches in the aid formula.

✓ The State currently has an immense, unfunded liability for "prior year claims" for school aid of $654 million. This backlog in claims has been building in recent years, but it has never been at such a high level. When combined with a $406 million liability for the preschool and summer handicapped programs, the total unfunded aid claims amount to more than $1 billion.

✓ A number of positive initiatives directed toward cost-effectiveness and accountability were included in the budget, and the proposals limiting local control which the Comptroller's *Principles for School Finance Reform* argued against were rejected. No real progress was made, however, in resolving the central issues of equity and property tax reform.

- The positive initiatives directed toward cost-effectiveness and accountability indicate that the State is moving in the right direction in these areas.

- Many of the new requirements, however, are very broad, including those for plain language budgets and school district report cards. Much remains to be worked out in regulations.

The report also includes sections examining the relationship between school finance and the State's budget process, a historical review of education reform efforts in New York, and a summary of activities in other states.

✓ Most previous reform efforts have failed to produce a comprehensive overhaul of our school finance system, often because of insufficient consideration of fiscal and legislative realities.

✓ A special commission may be an effective way to arrive at a reformed aid formula. To be successful, any such effort should include representation from the major interests and must be specifically mandated to create a reformed aid formula, in ready-to-enact form. On the model of the federal "base-closing" commission, the Legislature could then either accept or reject the recommendation in its entirety. This approach would eliminate the temptation to manipulate the formula, which over the long term has produced the current complex and unfair system.

✓ Reforms in other states have most often been triggered by litigation or by external events such as referenda. A review of the major reforms recently implemented elsewhere shows that none of the ideas behind those reforms are new to the debate in this State.

✓ New York's failure to achieve reform is rooted in the short-comings of the current budget process, which effectively lacks a long-term focus and tends to result in the avoidance of difficult issues. The current jumble of formulas is the result of manipulation through many years of this process.

## COMPTROLLER'S SCHOOL FINANCE PRINCIPLES

The Comptroller's Principles for School Finance Reform were originally released in February 1996. The four areas covered by the principles are cost-effectiveness, accountability, property tax reform and relief, and equity.

The findings and recommendations made in this report are guided by and reaffirm the *Principles* as previously described. Following is a restatement of the Comptroller's principles, as further defined by the major recommendations in this report.

- ✓ **Cost-effectiveness** must be a focal point of educational reform. State regulation, practices and finance mechanisms should assist, rather than hinder, the economy and effectiveness of local schools. These efforts, however, need not and must not conflict with quality or standards. State-level reinforcement and assistance for cost-effective operations is vital, including mandate relief and aid formula reform. School districts should look to shared services, consolidation of functions and even district mergers to reduce costs.

- ✓ **Accountability** enhancements should be made within the current system of local control. These should include better reporting and disclosure, an improved local budget process, and an enhanced focus on performance measures and standards. Locally controlled programs and budgets are preferable to state control, and state regulation should focus on results rather than on the means used to obtain them. More flexibility should be provided for schools that meet standards and regulatory controls should be concentrated on areas where standards are not met.

- ✓ **Property tax reform and relief** must both be addressed. The often inequitable administration of this tax through nearly 1,000 local governments must be reformed and the system modernized. Periodic reassessment, modern appraisal methods, and a uniform and current value standard must be required. Regional appraisal systems should be encouraged. Property tax relief is also crucial and the best approach is through cost-effectiveness together with sufficient aid apportionments. Targeted relief for those most adversely affected by the regressive nature of the property tax should be provided through an enhanced circuit breaker credit in the state income tax.

- ✓ **Equity** and adequacy of resources for all school districts must be ensured. The current heavy reliance on local property taxes disadvantages children and taxpayers living in high-need and lower-wealth areas. The long-term solution is to increase state aid over time to those school districts most in need. School aid has historically shared the burden of financing local education and the recent constriction of aid is hard on all districts, but hardest on the lower wealth districts which are most dependent on state aid for their programs.

## OVERVIEW

This report presents the Comptroller's findings and recommendations resulting from more than a year of study and a series of community forums held across the State on the topic of education finance.

Community forums on educational finance were held in six locations across the State between October 1995 and May 1996. In addition to his reports on executive and enacted budgets, the Comptroller has issued three reports explicitly on the topic of school finance: *School Finance Reform — A Discussion Paper* (October 1995), *Review of Current Proposals for Property Tax Relief* (February, 1996), and *Principles for School Finance Reform* (February 1996).

In selecting from among the many alternative approaches to equity and reform, the Comptroller was guided by his previously expressed principles as well as by a consideration of what options are realistically achievable, both economically and politically.

The overarching conclusion reached is that the basic school finance system already in existence — property taxes supplemented by state aid — is here to stay. This means that the policy debate should be refocused on the long-standing and difficult issues of school aid formula and property tax reform. Much of the debate and many of the proposals advanced in the past year concentrated instead on moving to a completely new system or on eliminating or freezing property taxes.[1] Those directions are not likely to lead to fruitful change.

Equity in the finance system is a long-standing concern, and although the mix of state and local resources has never been sufficient to overcome local wealth differences, the situation is now worsening because of a declining proportion of state aid. The Comptroller has concluded that the equity issue can best be addressed through reform of the state aid formula and by providing additional aid over time to the areas most in need. This position is based on a judgement that among all the options for reforming the finance system — including "Robin Hood" redistribution proposals, new revenue sources, regional tax bases, or even full state funding — this is the best approach and also probably the only one that is realistically achievable.[2]

The inefficient and virtually incomprehensible aid formula system that has developed over time must be completely redesigned, and a fairer and more rational system developed. This report recommends a simplified system and a different approach designed to encourage efficient and cost-effective operations. By revisiting the aid system and working to hold down costs, more resources can be devoted to equalization over the long term.

---

[1] See *Review of Current Proposals for Property Tax Relief* (February, 1996), for a complete discussion of these issues.

[2] These alternatives are described in *School Finance Reform — A Discussion Paper* (October, 1995).

New findings and recommendations are presented in this report in three areas: property tax, equity and the school aid formula. Cost-effectiveness and accountability continue to be vital elements of the Comptroller's school finance reform agenda, and the aid formula recommendations in this report, for example, are designed to enhance these two principles. However, inasmuch as most of the cost-effectiveness and accountability improvements advocated in the original *Principles* are now being implemented, no additional recommendations are made in this report. The Comptroller will continue to monitor efforts in these areas.

The new findings and recommendations made in this report are described within the following three chapters:

Property Tax and Other Revenues
Equity
School Aid Formula Issues

Two chapters provide a context for the difficulties in achieving reform:

School Finance and the Budget Process
Historical Summary of Reform Efforts

A variety of appendices on related topics are also included:

School Finance Actions in the 1996-97 Budget
Comparison of Budget Actions and Comptroller's Principles
Other States
Bibliography
Statistical Supplement

**Impractical Alternatives**

The elimination of the property tax as a means of supporting education is not a realistic possibility. This conclusion derives from the following considerations:

- The sheer magnitude of the school property tax (approximately $15 billion currently) means replacement would require a *major* increase in state taxes, damaging New York's competitiveness with other states. For example, raising $15 billion in revenues is equivalent to doubling the current state income tax or raising the sales tax by 10 cents on the dollar.

- The property tax also taxes wealth that would be missed by other taxes, such as second homes and some business property.

- The property tax is a reliable and effective way for local governments to raise revenue. It is imposed on a known base and is therefore easy to administer.

- Property taxes are used in every state to support schools.

Clearly, the State cannot hope to eliminate the property tax or somehow take over that portion of funding. There are also positive aspects of this tax for local governments, and the fact that local property taxes are used for schools in virtually every state is not an accident.

Another approach that has been advocated is for school districts to switch to a different *local* base for schools. This review finds that such an approach is inadvisable. Local income or sales taxes are probably the only sources that would be large enough to replace the property tax and there are significant reasons against using both:

- It would not make sense to cut broadly based state income taxes, only to impose new income taxes locally on a smaller geographic base.

- The sales tax is even more regressive than the property tax, meaning it places a greater relative burden on individuals and families at lower income levels. The sales tax is also already fully extended. The combined state-local sales tax rate in New York State ranges from 7 to 8.5 percent, whereas the national average rate for states with a sales tax is 6.9 percent; the major neighboring states have sales taxes of 5 or 6 percent. Lastly, sales taxes are not deductible from federal taxes.

- Both income and sales taxes are very volatile and receipts cannot be precisely projected even at the statewide level. Their application for use by school districts on a small geographic base would be extremely problematic.

- Imposing a variety of differing income or sales tax rates in the State's nearly 700 school districts would cause confusion and spur unhealthy, internecine local divisions. This problem would be somewhat lessened if a new local tax were imposed more broadly (on a countywide or regional basis, for example) but would still exist.

Many proposals have recently been advanced that would freeze rather than eliminate local property taxes for schools. Freezing local school property taxes, however, is also impractical.[3]

- The State probably cannot provide sufficient resources. Just to meet general inflation would cost about $750 million *annually*, even without addressing enrollment growth, deficient programs and buildings, or equity concerns.

- Any plan which freezes local revenues would eliminate the autonomy of local school districts. Such plans essentially would govern local spending through a state formula. Even with reform, no formula can adequately reflect varying local needs, preferences, and changing circumstances.

- Given tight financial conditions and rising educational needs, it does not make sense to devote a large amount of state resources to freezing property taxes for *all* districts. This would, for example, use scarce state resources to provide tax relief for wealthy, low-tax, high-expenditure areas.

- Although some freeze proposals are described as being voluntary, in practice they would not work out that way: districts would probably have to choose between accepting the freeze, or getting no increases in aid. The result could be a two-tiered system with middle and lower-wealth districts frozen and wealthy districts still increasing expenditures.

Another approach that has been advocated by some is to supplement school property taxes with other new local revenue sources. Several options often recommended are sharing some portion of local sales taxes, or allowing all school districts to levy consumer utility taxes. These practices already exist in some areas: in seven counties a small portion of sales taxes are shared with school districts, and small city school districts are permitted to levy consumer utility taxes (19 do so currently). Although supplemental taxes broaden the tax base and can remove pressure from the property tax and help raise revenue for schools, the negatives from such an approach are substantial:

- In New York State virtually every option available for raising revenues has been explored and exploited. Searching for new areas to tax for schools would not be a productive policy direction.

---

[3]A complete discussion of these issues is provided in the Comptroller's *Review of Current Proposals for Property Tax Relief* (February, 1996).

- The positive side to property taxes being the single, identifiable local revenue source for schools is that it provides very direct accountability and keeps pressure on the system for cost-effective operations.

- Regarding sales and consumer utility taxes:

  -- Local sales taxes already are used for other purposes, so providing additional resources for schools implies either redirecting them from the other local governments currently receiving them or raising the rate.

  -- Utility taxes increase costs for businesses and consumers, are regressive, and should be considered for reduction — not increases.

  -- Both utility and sales taxes are not deductible from federal income taxes, whereas property taxes are.

**Practical Reforms**

Since the property tax cannot be replaced, it must be made less objectionable and administered in a rational manner. This is a difficult issue for local governments because moving toward a fairer, more rational system involves redistribution of the tax burden. The State must supply both leadership and support for this change and a fairer, more rational system must be required as a matter of law.

Research prepared for a State Board of Regents 1995 study clearly documents the failings of the current property tax system in New York State.[4] The essential finding is that the characteristics of our current property tax system are exactly the opposite of ideal standards. The research also found that special rules applying to New York City and Nassau County further complicate the system and create additional inequities.

✓ **Periodic reassessment, modern appraisal methods and a uniform and current value standard must be required.**

The 1996-97 enacted budget established an interagency task force on real property taxes, but its mission and time frame are limited. The task force, which includes participation from the Comptroller's Office, is directed to study volatility in the real property tax base over time, changes resulting from administrative actions, judgements or tax certiorari proceedings, and related issues; it must report to the Governor by November 15, 1996. The Comptroller supports a task force approach to recommending real property tax reforms, although approach taken in the budget

---

[4] "Discrepancies Between Ideal Characteristics of a Property Tax System and Current Practice in New York," Dick Netzer & Robert Berne, *Study on the Generation of Revenues for Education*, New York State Board of Regents (February, 1995).

legislation may not adequately provide for comprehensive treatment of real property tax issues, including the differential systems for certain localities and the current method for providing tax preferences.

Even with reform of its administration, however, the property tax would still be regressive: it taxes a higher proportion of income at low-income levels. This regressivity can be addressed through targeted relief by expanding the personal income tax "circuit breaker" credit. This credit goes to lower-income homeowners and renters for whom property taxes, either those directly paid or implicitly paid (in the case of renters), make up a very high proportion of their income. It is a "refundable" credit, meaning that individuals qualifying for it can receive payment from the State even if they otherwise have no tax liability.[5]

New York State's current circuit breaker credit is not very effective in overcoming the regressivity of the property tax because it operates at a quite modest level. It is limited to households with incomes below $18,000 and the maximum credit is $375 for the elderly and $75 for the non-elderly. Approximately 450,000 households receive this benefit, and the average credit is less than $100. The circuit breaker currently reduces State income tax receipts by $50 million annually; this is referred to as a "tax expenditure."

A more effective, expanded circuit breaker could be costly. Some options would create a tax expenditure of more than $500 million annually. The Regents have recommended a relatively modest expansion costing $20 million, which the Comptroller has supported.[6] Naturally, it will be difficult to find resources to support such a tax expenditure, but it should be noted that new tax cuts added in this year's budget alone totaled $83 million in 1996-97 and will grow to more than $280 million upon full implementation.

✓ **Expansion of the circuit breaker credit for real property taxes should be a tax cut priority.**

---

[5]For a detailed description of the current circuit breaker and an examination of alternative methods, see "Taxpayer Burden and Local Educational Finance in New York," Hamilton Lankford and James Wyckoff, *Study on the Generation of Revenues for Education*, New York State Board of Regents (February 1995).

[6]A description of this proposal can be found in the Regents state aid proposal, *Supporting Cost-Effective School Reform*, State Education Department (March 1996).

**Discussion**

Local property taxes pay for the majority of public school expenses. Property wealth, as well as income with which to pay property taxes, is not evenly distributed among school districts. Great disparities in spending, and thus in educational programs, are largely a function of variations in the property tax base available to finance education.[7]

State aid is generally paid in inverse proportion to wealth: low-wealth school districts get more aid than do wealthier districts. However, the aid payments to low-wealth school districts are not high enough to effectively allow them to even approach the amounts spent and programs provided by wealthier districts. Thus, while state aid is redistributive, it is not enough so to effectively equalize opportunity. This relationship can be illustrated by the variances in average statistics for the wealthiest and poorest tenths of the State's 686 major school districts:

- Property wealth varies between the wealthiest tenth and poorest tenth by a ratio of 16 to 1
- State aid attempts to compensate for this difference and is equalized, varying by 5 to 1
- Spending varies by more than 2 to 1

The wealthiest tenth is able to spend on average more than twice what the poorest tenth spends. With more abundant tax bases, moreover, the wealthiest tenth of districts attains this higher spending with an effective property tax rate that is some 20 percent lower than the average rate for the poorest tenth of school districts. Thus, equity is an issue with implications for both programs and taxpayers.

These issues are often more easily understood through a graphical comparison. The charts in Figure 1 show average spending levels, state aid payments, percentage of state funding and tax rates for districts at various levels of wealth. Each chart shows data for "deciles" (or tenths) of school districts ranked from the lowest wealth to the highest. In almost perfect form, it can be seen that spending increases with local wealth. This is a pattern is seen, moreover, in all geographic regions and among all types of districts. The charts show that although state aid is equalized, wealth differences still result in spending disparities. While state aid represents a much higher proportion of expenditures in lower wealth areas, these school districts still are not able to spend at the levels wealthier areas do, even with the same relative tax effort. The final inequity demonstrated is that tax rates are actually lower in the wealthiest, highest-spending areas — even though these areas receive much less state aid, their abundant tax bases make this possible.

---

[7]An introductory description of this topic can be found in the Comptroller's earlier report, *School Finance Reform — A Discussion Paper*.

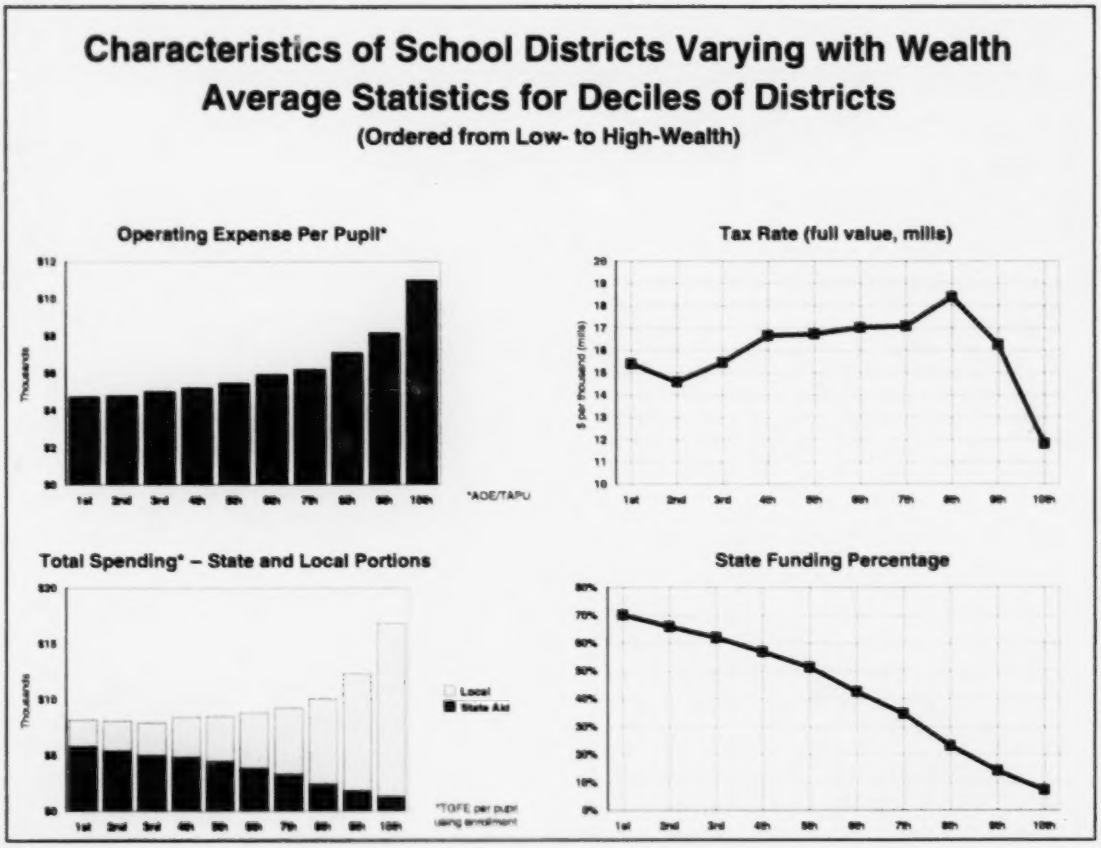

Characteristics of School Districts Varying with Wealth
Average Statistics for Deciles of Districts
(Ordered from Low- to High-Wealth)
Operating Expense Per Pupil*
Tax Rate (full value, mills)
Total Spending* – State and Local Portions
State Funding Percentage

**Figure 1**

It is not argued that *no* spending variances should exist among schools, because New York State has a strong tradition of local control of education. Instead, the equity principle suggests that spending variances should be less stark and that lower-wealth areas should receive more help so that they can improve their educational programs.

Spending differences reflect both differing fiscal capacities among school districts and differing preferences. However, the extent to which they represent one or the other is extremely hard to isolate. A relatively greater disposition to commit resources to education tends to be found in communities with more resources to commit. Regional cost differences also affect spending and school districts with relatively greater concentrations of disadvantaged students face higher costs.

Of all the alternatives to address equity, "leveling up" or providing additional state aid over the long term to disadvantaged districts is probably the most realistic. A major increase in state aid in the near term, for example, is not possible. "Robin Hood" style redistribution of aid is fiscally feasible, but it cannot be achieved legislatively. The objections to aid decreases for any district or

group of districts are simply too strong. Inasmuch as property taxes are already an issue in practically all school districts, redistribution at the current time is also a questionable policy goal. Sharing local property taxes, or expanding the base by raising property taxes on a regional level, is a technically and fiscally viable method for addressing equity, but it is not politically viable. It is in many ways an even more invasive redistribution than state aid Robin Hood proposals.[8]

✓ **A long-term solution to equity must be sought through a reformed aid formula, providing additional aid to the areas most in need.**

Equity is a broad term with varying meanings. Its core implication, however, is that the finance system should equalize wealth and need differences. Although possibly everyone would agree with this simple definition, there is great dissension on how to measure wealth and need and on how equalization can best be achieved.

On one level, the discussion of how to measure wealth and need is a technical academic question, and numerous research studies on wealth measures, aid formulas and relative need have covered these issues.[9] On another level, the concerns are really more about the aid distribution (i.e., the bottom line) than they are about theory. School finance can be a very divisive topic, as the history of various reform efforts amply documents.

In reality, there are an infinite number of possible formulas to distribute aid and many countering theoretical arguments that may be employed to support them. Even among reformers, there is no consensus on how the formula should work. Each district or group, moreover, tends to define equity as more aid for them (or, at least, not less). The Comptroller's forums on school finance, for example, produced statements from people in every geographic region and wealth category to the effect that the current formula was unfair to them and too generous to others.

Although understandable, the divisiveness which can accompany a discussion over school aid is unfortunate. The long-term impact, as reflected through the budget process, has been the translation of distributional political concerns into a virtually incomprehensible amalgamation of formula factors, many of which are beyond explication.

Reduced to very simple terms, the formula measures wealth based on both property values and income; it measures need as a complex combination of factors beginning with wealth but also including pupils, expenditures, poverty factors, test scores, educational settings and on and on. The complexity of the system and its inclusion of many factors without any real meaning (also known as fudge factors) have muddied the water and made a straightforward discussion of concepts very

---

[8] A more complete description of these various options is provided in *School Finance Reform — A Discussion Paper*, State Comptroller's Office (October, 1995).

[9] A subsequent section of this report summarizes earlier reform efforts. The reports of recent education task forces and related research provide an exhaustive background on the many topics raised by this discussion. A selected bibliography is also provided in an appendix.

difficult. One cannot say, for example, that the formula takes no measure of needs in urban areas, because the formula does include many factors intended to reflect poverty and concentrations of disadvantaged pupils. The discussion is therefore reduced to whether or not the weighting of those factors is sufficient. The weighting, of course, is determined by the jumble of formulas, which does not lend itself to a reasonable public policy discussion.

**Potential Redistribution under the Current Formula**

The last major change in school aid occurred in the 1993-94 budget when alterations were enacted that were loosely patterned after the 1988 recommendations of the Salerno Commission.[10] The altered formulas more heavily reflected the costs of educating at-risk students and they also incorporated actual spending levels and tax rates more significantly in the formula in recognition of differences in regional costs.

Although they were announced as the most sweeping reforms in more than a decade, the 1993-94 formula changes have never been fully implemented. The revised formula was accompanied by a "transition adjustment" providing both save-harmless protections against losses in aid and also limits or caps on aid increases. The new formula could not have been implemented without the transition caps, as the State could not have afforded the overall aid increase it would have driven. Four years later, however, the caps are still very much in effect, and it is the caps more than the formula which govern how much aid school districts receive. In essence, the underlying formula only determines which districts are eligible for aid increases — the caps have largely determined how much aid those districts get.

In the 1993-94 school year, the first year of the revised formula, the increases were limited to 3 percent, with a further adjustment for enrollment growth. In 1994-95, fueled by a budget surplus, a big school aid increase was provided and the transition cap was loosened to allow districts to receive aid increases up to 6.85 percent. This movement forward in implementing the formula, however, came to a halt with the 1995-96 budget and its complete freeze of aid. This year, the formulas were modestly unfrozen for the 1996-97 school year (the cap is described below).

To complete the phase-in of the 1993-94 formula reforms in 1996-97 would require $472 million in additional aid, if save-harmless protections were continued.[11] Table 1 (on the following page) shows the additional changes in the aid distribution that would have occurred this year, if the current formula operated without the transition adjustment.

---

[10]The Salerno Commission and other prominent school finance task forces are described in another section of this report.

[11] This estimate is based on the current value of the transition adjustment cap. However, there have been many interim formula changes since 1993, and it is therefore not possible to completely objectively quantify what the 1993-94 formula would cost today.

**Table 1**

**Potential Redistribution of Aid Under Current Aid Formulas**
**(If the Caps and Save-Harmless Provisions of the Transition Adjustment were Lifted)**

| Region/Group | # of School Districts | Districts on Formula* | 1995-96 Enrollment | 1996-97 Aid Total for 6 Aids** ( millions $ ) | Districts with Aid Capped (that could receive additional aid) # of Districts | Potential Aid Increase Amount ( millions $ ) | Potential Aid Increase Percent | Save-Harmless Districts (that could receive aid losses) # of Districts | Potential Aid Loss Amount ( millions $ ) | Potential Aid Loss Percent |
|---|---|---|---|---|---|---|---|---|---|---|
| **Statewide Total** | **686** | **29** | **2,794,281** | **$5,675** | **297** | **$472** | **12.0%** | **360** | **($146)** | **-9.5%** |
| **Big Five Cities:** | **5** | | **1,174,346** | **$2,325** | **5** | **$131** | **5.6%** | **NA** | **NA** | **NA** |
| New York City | | | 1,044,540 | $2,026 | | $62 | 3.1% | | | |
| Buffalo | | | 46,970 | $148 | | $17 | 11.7% | | | |
| Rochester | | | 37,958 | $79 | | $27 | 33.7% | | | |
| Syracuse | | | 22,825 | $61 | | $5 | 8.4% | | | |
| Yonkers | | | 22,053 | $11 | | $20 | 185.8% | | | |
| **Rest of State:** | **681** | **29** | **1,619,935** | **$3,350** | **292** | **$341** | **21.3%** | **360** | **($146)** | **-9.5%** |
| **Small Cities** | **57** | **4** | **257,740** | **$560** | **37** | **$68** | **19.0%** | **16** | **($8)** | **-6.1%** |
| **Downstate Suburbs** | **169** | **6** | **530,341** | **$855** | **87** | **$203** | **35.3%** | **76** | **($63)** | **-28.5%** |
| **Upstate Suburbs** | **272** | **11** | **624,873** | **$1,356** | **99** | **$52** | **11.2%** | **162** | **($51)** | **-6.0%** |
| **Rural** | **183** | **8** | **206,981** | **$580** | **69** | **$17** | **8.7%** | **106** | **($24)** | **-7.0%** |

*These 29 districts are the only ones whose aid is currently paid through the formula, rather than being governed by the transition adjustment; they are unaffected by its elimination.

**Total for six aid categories covered under the transition adjustment: operating, tax effort, tax equalization, gifted and talented, limited English proficiency, and computer hardware.

Table 1 shows that statewide, there are 297 districts that would receive additional aid if the formula was allowed to run without a transition cap. These increases would total $472 million, providing a 12 percent increase overall for those districts. Conversely, there are 360 districts that would be subject to aid reductions totaling $146 million, or 9.5 percent, if the save-harmless protections in the transition adjustment were withdrawn. Note that only 29 districts are actually receiving the amount of aid the formulas specify, without being either capped or held-harmless.

The redistribution that would occur under the current law formula is striking, and also counter-intuitive to many. For example, the overall aid increase that would be received by the "Big Five" cities is 5.6 percent, whereas the districts elsewhere in the State would receive an overall increase of 21.3 percent. In many areas the results are quite mixed: in the downstate suburbs, for example, 87 districts would receive more aid with increases totaling 35.3 percent, and 76 districts would stand to lose 28.5 percent of their aid (if save-harmless protections were removed).

This data is presented here solely to illustrate that the current formula, in all probability, would probably never be allowed to go fully into effect. It is really the caps that have been driving

the aid distribution since the 1993-94 changes, and without them, the redistribution of aid under the formulas would probably not be acceptable legislatively.

This is a fundamental problem because the caps generally result in all districts identified by the formula as being needy to any extent to be aided identically — they have for the most part gotten equal treatment under the caps. There has been very little differentiation of need and the formula is therefore not effectively targeting funds. The payment of aid under the governance of caps has also meant that underlying problems in the formula, some of which would have produced unacceptable anomalies in the aid distribution, have been largely suppressed.

This year's cap broke from the previous pattern, and did provide some differentiation of relative need. Districts were allowed to receive either an increase limited to 1.52 percent or a 10.9 percent share of their overall formula increase. Thus, the districts with the largest overall formula increases were allowed the largest increases under the cap. The effect of this cap is as follows: districts for which the formula would provide an increase of greater than 13.9 percent got a pro-rated share of their increase, while other districts were limited to 1.52 percent.[12] Of the 297 districts receiving aid increases limited by the cap, 152 are receiving aid on the basis of a 10.9 percent share of the formula aid change; the rest are limited to 1.52 percent.

This differentiation of relative need would seem on its face to be a positive outcome. A close examination of the factors behind the some of the largest increases, however, leads to a conclusion that irregularities in the formula are responsible for many of them. Table 6 in the statistical supplement appendix provides a list of the 56 districts which were allowed increases under the transition cap of greater than 5 percent. These 56 districts are of above average wealth (31 percent above the state average) and spending (18 percent above average).

A supplementary formula known as "tax equalization aid" with a tendency to produce wide swings in aid is responsible for many of the increases shown in Table 6. In fact, for 16 of the 56 districts receiving the largest increases statewide, this year's calculated increase for tax equalization aid represented more than 100 percent of their entire aid increase. Many more districts are heavily affected. Although this formula was not altered in the budget legislation, it produced wide swings in aid. The tax equalization formula is based on expenditure data that is several years old, but no quantum changes have occurred in the tax situations of these districts — they did not go from being low-tax to high-tax districts overnight. This is simply one example of how a poorly designed formula provides unexplainable variations in aid. The end result is that formula glitches appear to be targeting the aid as much as anything else.

The problems with the current formula are overwhelming. In addition to the complexity and a failure to successfully target aid or address equity, the current formulas are in many ways inconsistent with a focus on cost-effectiveness (this is described more completely in the next

---

[12]This results because 10.9 percent of a 13.9 percent increase is 1.52 percent; districts with larger formula increases therefore receive more aid using the 10.9 percent share provision.

section). As demonstrated by the preceding discussion, the formulas are also poorly calibrated and tend to produce unexplainable wide swings in aid from year to year. For these reasons the current aid system cannot form the basis for an ultimate solution to the equity issue.

✓ **The current formula should not be relied upon for a long-term solution to equity.**

Save-harmless protections, which prevent reductions in aid, are particularly important given the vagaries of the current formula. There is a popular misconception that save-harmless is provided primarily to wealthy districts. In fact, two-thirds of the districts receiving save-harmless are of *below-average* wealth.

In addition to the hardship its removal would cause, there are also sound practical reasons for maintaining save-harmless protections, at least for most school districts. As wealth data changes, enrollment fluctuates, and the formula provisions themselves change, any district can be subject to variations in the formula calculations which would remove aid. Since the formula and the data that feed into it are imperfect, removing aid on the basis of any single year's version of both could be harmful and unreasonable. School districts must be able to reasonably plan their budgets, without the threat of sudden reductions in aid.

✓ **The formula, or any revision to it, should include reasonable save-harmless protections.**

**Toward A Solution**

Although this report has acknowledged and described the inherent difficulties in reaching consensus on reform, these difficulties should not be considered to be insurmountable. Reform of the State's budget process, for example, which the Executive and the leaders of both houses of the Legislature have called for, would greatly facilitate movement toward a long-term solution.

The adoption of a special commission approach, structured on the example of the federal "base-closing" commission, could be also be a helpful device in arriving at aid formula reform. To be effective, such a commission should be directed to arrive at a complete aid formula proposal, in ready-to-enact form — the Legislature could then either accept or reject the new formula in its entirety. Although a phase-in schedule would probably be necessary, ideally a permanent, self-adjusting formula should be arrived at, not one that is altered from year to year. This approach could avoid the annual manipulations that have corrupted the existing formula over time and produced the current jumble.

✓ **The adoption of a special commission approach, structured on the example of the federal "base-closing" commission could be used to develop a reformed formula.**

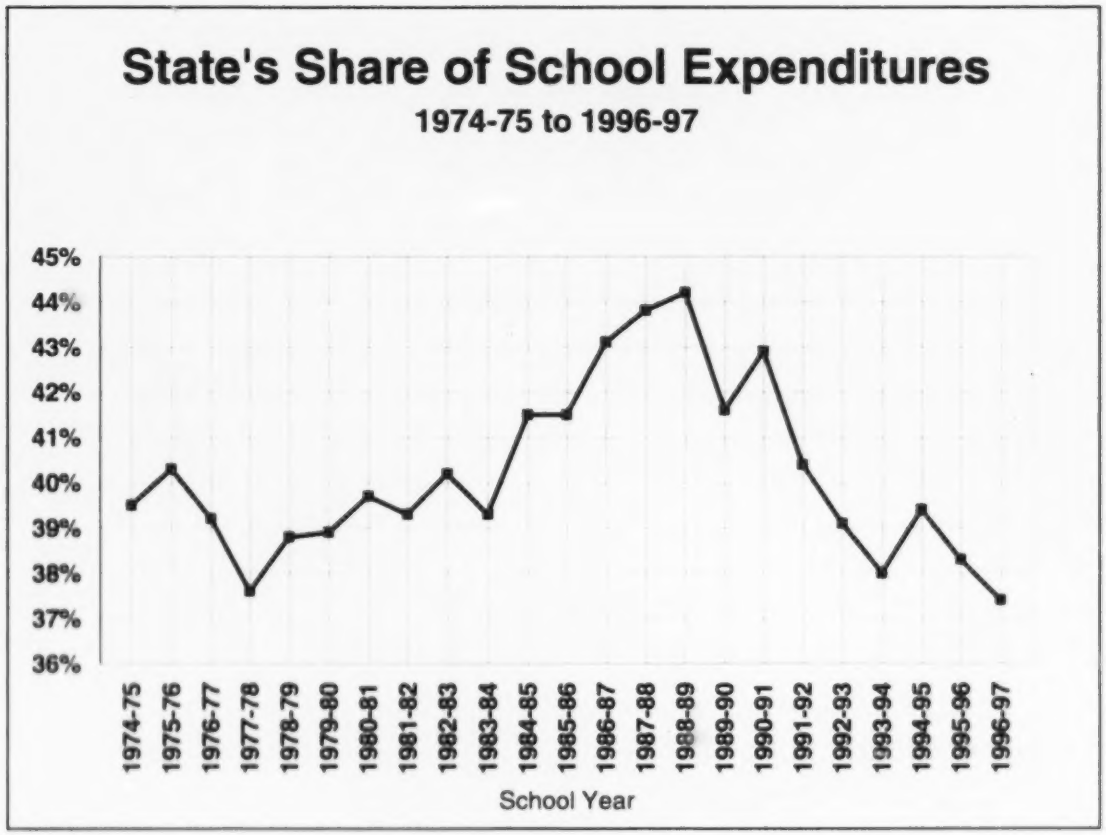



**Figure 2**

Inasmuch as this report has recommended that equity be addressed through a long-term leveling-up of aid, it is appropriate to discuss some boundaries on the cost of such an effort. The essential question is what is an appropriate level of state aid? Unfortunately, there is no definitive or entirely objective answer to this question.

Because costs vary over time and the cost of living varies, one way to evaluate the State's aid contribution is to measure the percentage it represents of total spending. The state share in New York State for the 1996-97 school year is somewhere below 38 percent.[13] Education advocates have long called for a 50 percent state share, based in part on national statistics. That national average

---

[13]Based on State Education Department statistics through the 1994-95 school year trended forward by the Comptroller's Office. This estimate is based on the aid increases for those years and on an overall increase in local school expenditures of 3 percent in the 1995-96 and 1996-97 school years. The 3 percent figure for 1995-96 is based on preliminary general fund expense estimates as well as tax levy data; growth in 1996-97 is assumed to be at the same percentage level. This is a conservative estimate of district expenditures and does not factor in many factors such as enrollment growth. If school district expenditures are increasing in the aggregate by more than 3 percent in either of the years projected, the actual state share will be lower, probably 36 or 37 percent.

state share, however, is approximately 46 percent according to the most recently available statistics.[14]

Figure 2 graphically portrays the State's share of school expenditures in New York State as it has changed over time. As the chart shows, this share has varied considerably, but the general trend has been downward since the late 1980's. In fact, if the trend continues, New York State will reach a lower level of sharing than has been seen since the early 1950's.

The State share tends to go up in good fiscal times and down in tight times. The problem with such a pattern is that the State retreats from supporting schools at precisely the wrong time, leaving local districts more on their own just when they are most likely to need more help. Conversely, during the good times, aid is given out freely, but not within any overall long-term plan as to how schools should be funded. The aid increases in the good times tend to be very broadly shared, with all districts receiving more, rather than being targeted toward equity. The result has been very little progress in equity over time.[15]

The state share of spending naturally depends not only on state aid, but also on how much school districts spend. The Comptroller recommends an approach combining a focus on cost-effectiveness and cost-control with additional aid apportionments for the districts most in need. A higher state share should allow equity to be more effectively addressed if the funds were prudently allocated. A higher state share also implies a more progressive tax system, since the largest state tax, the income tax, is also our most progressive tax (meaning it taxes a proportionally higher share of income as income increases). In comparison, the local property tax is very regressive.

Purely as an example, it may be instructive to consider that an increase in the State's share from its current level to the 46 percent national average level would require approximately $2.3 billion in additional state aid (at current spending levels). For comparison purposes, the state-level tax cuts enacted with the past three budgets will reduce revenues by $6.2 billion annually upon full implementation. The incremental cost in this fiscal year alone was $2.3 billion, and it will be $2.0 billion in next year's budget.

---

[14]According to statistics for the 1994-95 school year from the National Education Association (NEA). Note that this figure represents the state share of school revenues including federal aid, which is also the method used by the State Education Department (and the Comptroller's Office) to describe the state share. The NEA statistics for the state share excluding federal aid is nearly 50 percent, but that figure is not comparable to the state share statistics most commonly used in New York State.

[15]For a more complete discussion of this issue see the Comptroller's earlier report, *School Finance Reform — A Discussion Paper* (October, 1995).

## SCHOOL AID FORMULA ISSUES

The current complex system of school aid formulas needs substantial redesign, including simplification, consolidation and a better reflection of needs and regional costs. Annual patchwork has produced very bad results, and even the basic underpinnings need reassessment. The aid formulas themselves must be reevaluated from a cost-effectiveness perspective. Based on these general findings, a number of conceptual recommendations are offered.

The formula recommendations that follow focus most heavily on ways to make the aid system more flexible, less administratively cumbersome and potentially more cost-effective. These suggestions have not been developed into a complete aid formula, but are intended to help spur discussion in certain areas where the Comptroller's perspective may be most helpful. A number of other factors must be considered in formula reform which are outside of the Office of the State Comptroller's traditional area of expertise, most notably whether aid is appropriately directed to pupil needs.

Beyond the specific suggestions offered, above all the aid formula must be rational and understandable. All factors employed in the formula should have a meaning apart from their use in determinating aid — the "fudge factors" which proliferate in the current system, primarily to achieve a predetermined distribution of aid, should be avoided.

### Categorical Aids

Almost everyone agrees that there are far too many formula and grant categories in the current school aid system: there are now more than forty in all. Categorical aids are those programs directed toward particular needs, such as special education, transportation, and gifted and talented programs. General aid, in comparison, can be spent for any purpose and allows districts more flexibility. The aid categories have proliferated, however, without any examination of what activities should be aided through the general formula versus a separate, "categorical" aid formula or grant program. Following is a listing of just some of the largest categorical aids:

| | | |
|---|---|---|
| Gifted and Talented Aid | Transportation Aid | Building Aid |
| Limited English Proficiency | Computer Hardware | Computer Software |
| Library Materials | Textbooks | BOCES Aid |
| Excess Cost (Special Education) | Special Services Aid | |

In addition, there are many more grant categories, some of which are even targeted to individual school districts. There are also a number of expenditure checks and "set-asides" within the general aid categories. An entire computer run is produced to describe these set-asides, which include those for pupils with compensatory educational needs, early grade intervention, and attendance improvement and dropout prevention. Some of these set-asides had their origins in categorical formulas that were nominally consolidated within the general aid formulas. Many of

these "consolidations" were no more than joining the formulas together and eliminating the separate line on school aid tables and computer runs; the categories still exist in effect.

This plethora of expenditure requirements and categorical aids has evolved over time in response both to legitimate program concerns and a legislative desire to direct funds to particular purposes. The system that has evolved, however, is in truth quite ineffective in ensuring program quality. In every area where an expenditure requirement exists, school districts are universally spending much more to carry out the program.

The system that has developed is complex and administratively burdensome. It would be far better for the State to provide aid without strings, allowing administrators to focus on running their programs in an efficient and effective manner. This is not to deny the importance of legitimate program concerns for items such as attendance improvement or early grade intervention, but the combination of the aid system with a program requirements system is inherently inefficient.

✓ **The number of categorical aids should be dramatically cut back so that school districts are provided with maximum flexibility to use their state aid apportionments.**

One possible, and more rational, alternative approach is to move toward a system where categorical aids are replaced by appropriate weightings in the pupil counts used for basic operating aid. The development of such a system would require a study of the current differential costs for providing services to various groups of pupils. This approach could work for many, but not all categorical aids.

**Expenditure Reimbursement**

Many of the current aid formulas operate on a reimbursement basis; school districts receive aid based on how much they spend for certain services. Formulas such as this may encourage cost-escalation at the local level and definitely result in continual re-estimates of aid entitlements. This is a cost-control issue for *both* the State and local school districts.

Formulas which provide aid on an expense reimbursement model clearly offer the wrong incentives — as you spend more you get more. Although there are affirmative reasons for such a mechanism in some areas, this type of formula is almost antithetical to cost-effectiveness. Districts reducing transportation expenditures through new efficiencies, for example, lose aid as a result. A district successfully main-streaming a higher proportion of special education pupils also could be penalized in its aid apportionments.

✓ **Reimbursement-based formulas should reevaluated and specific local expenditures should be avoided as a formula mechanism wherever possible.**

Specific local expenditures should be avoided as a reimbursement factor wherever possible. The major expense-driven aid categories this concept could be applied to include special education,

transportation (at least the operating expense portion), and also possibly BOCES aid. These expense-based categories of aid have traditionally grown at a much faster pace than operating aids; they tend therefore to "crowd-out" potential aid increases targeted solely to equity. Since the major formula changes in 1993-94, for example, expense-driven categories of aid have gone up much faster than general operating aids have:

| Aid Category/Group | 4-Year Total $ Increase 1993-94 to 1996-97 | 4-Year Percentage Increase 1993-94 to 1996-97 |
|---|---|---|
| Operating Aids [16] | + $531 million | + 9.4% |
| Major Expense-Based Aids | + $446 million | +17.1% |
| Excess Cost-Public | + $173 million | +15.1% |
| Excess Cost-Private | + $ 20 million | +21.7% |
| BOCES | + $ 63 million | +23.2% |
| Transportation | + $ 53 million | + 8.1% |
| Building | + $138 million | + 30.6% |

This is not to suggest that aid should not be provided for these activities, only that the aid should be provided through a formula mechanism that does not reward higher spending or penalize efficiency. In most cases some measure of need or service provided could be utilized. School districts could then focus on providing services as efficiently as possible and would not lose aid as a result of improving efficiency. Building aid and transportation capital expense are two areas where an expense-based formula would probably have to be maintained, because capital expenditures vary too much from year to year for a successful proxy to be designed.

Special education programs, currently reimbursed through the "excess cost" aid formulas, call for particular attention. In this area known to be a major factor in overall local cost increases, it has long been held that the aid formula itself encourages more restrictive and costlier placements. Pupils placed in high-cost or privately run programs receive a higher share of state aid than pupils placed in less restrictive classroom environments. The aid formula therefore provides incentives directly opposite to the goal of providing services in the least restrictive possible environment (or

[16]Considered for purposes of this example to be those aids subject to the transition adjustment, including extraordinary needs aid and educationally related support services aid (just removed from the transition adjustment this year).

main-streaming). The Regents and the Executive have both introduced a number of proposals to remove these incentives.[17]

The majority of formula aid payments, it should be pointed out, are payed without regard to local expenditures. Most of the operating aid calculation, for example, is paid on this basis, although a "spend-to-get tier" which is part of that formula, does vary with district expenditures. (This is described further under "Maintenance of Effort").

**The Concept of a Block Grant Approach**

A redesigned formula taking a "block grant" approach would give school districts maximum flexibility to allocate resources and a greater incentive to hold down costs. This concept involves eliminating and combining categorical aids and avoiding expenditure reimbursement, as discussed above, as well as arriving at a prospective aid total for each district that would not be subject to constant revision.

A block grant approach would provide aid through a consolidated formula that would not vary with specific local expenditures. Aid under this approach would be provided without strings. Once the aid calculation was performed, the funds would go to each district in a set amount: no variations in aid would result from subsequent changes in district expenditures or other estimates.

Such a system has many advantages from an efficiency perspective. Under this approach state aid would become each school district's money to manage. There would be a much greater incentive for schools to accomplish efficiencies, because any savings would accrue entirely to the school district — for example, there would be no reduction in state aid resulting from reduced expenditures. State aid for each year would be set prospectively rather than continuing to vary with estimate revisions, years after the fact. School administrators could focus on managing their programs efficiently and would not be continually distracted by changes in aid claims, including changes driven by their own program decisions.

There is currently a policy focus on aid claiming procedures seeking to fix formula elements at a point in time, in order to limit the upward drift in aid estimates that is so common.[18] A redesign of the formulas under a block grant approach which eliminates the underlying factors responsible for revisions is another and perhaps better approach to this issue. For example, if the

---

[17]A change made this year will help to encourage main-streaming by changing the funding mechanism for low-intensity categories of instruction. These services will now be aided under the general formula for educationally related support services (ERSSA) rather than through "excess cost" special education aid, where aid is based on placements. Under the revised and unfrozen ERSSA formula, which supports services keeping pupils in regular education, school districts will now receive aid based on factors such as concentrations of poverty and additional placements will not generate additional aid.

[18]The section describing school finance actions in this year's budget contains a description of the changes implemented to limit upward drift in aid estimates.



BEST COPY AVAILABLE

formulas themselves were based on factors not subject to revision, or if any revisions beyond a certain date were specifically excluded from the underlying calculations, the aid claims would not continue to change indefinitely.

✓ **A "block grant" approach should be used to facilitate cost-effective school district operations.**

This recommendation is conceptual. Although a complete description of what a block grant formula would look like is not possible in the structure of this report, the essential elements are as follows:

- Almost all aid would be paid through a simplified system, and the many categories and expenditure checks that now exist would be eliminated.
- Aid formulas would not reimburse specific local expenditures.
- Need could be measured by a moving average of pupil counts and other data which would not be subject to short-run changes driven by school district behavior.
- A formula would be used, but an open entitlement would not exist: the aid amounts would be calculated prospectively and would thereafter remain fixed.

There are areas where this approach might not work, such as aid for building and transportation capital expense, but the exceptions should be very few. There would also be conflict between the goals of using known data and the most recent measures of need, but these conflicts could be resolved in a sensible manner. Currently, for example, pupil counts tend to change long after the school year is over: a reasonable approach would fix these estimates at a much earlier point in time. Appropriate controls could be put in place, especially in view of the tremendous administrative burden that would be lifted (both for school districts and the State) by eliminating the current complex system.

Movement to a block grant system raises significant issues related to regional costs and to maintenance of effort, both of which are discussed below. A block grant approach would eliminate the existing formula devices which are intended to address these issues (even if they do so ineffectively). Replacement of the current devices with more direct and effective measures is a desirable change and should not be seen as a retreat from these issues.

**Regional Costs**

Regional costs are a long-standing issue. It is well known that wages, building, utilities and other costs vary dramatically across the State and that the costs of providing education vary with them. Several education task forces have recommended that the aid formulas better reflect varying

regional costs and many proposals have been advanced over the years to include some measures of regional cost variability in the formula. However, no direct method has ever been adopted.

The "spend-to-get" tier in operating aid, as well the enhanced supplemental tax-effort formulas were included with the 1993 aid formula revisions partly to serve as a proxy for regional costs. Such formula adjustments, however, conflict to a certain extent with the goal of cost-effectiveness, because if districts spend more, they get more aid. Spending is not really a good proxy measure for relative costs, moreover, because it also reflects program differences. Spending does not reflect relative need when programs are deficient and spending is low. Likewise, it can reflect much more than need, when spending is unnecessarily high.

The current formula is a compromise, because the issues of how to quantify regional cost differences and how to handle geographic borderline districts could not be resolved. The compromise approach, however, does not address the needs of lower spending districts in high-cost areas. Many people also do not think the current formula adequately compensates for regional cost differences.

✓ **A mechanism should be included in the formula to explicitly reflect regional cost differences, without the negative aspects of the current formula devices.**

There are available approaches to quantify variances in regional costs which would be acceptable and the issue of borderline districts could be resolved through a number of methods. The problems inherent in addressing this issue do not outweigh the negative aspects of the current system.

A regional cost adjustment is particularly important if the formulas are modified to move away from expense reimbursement. In the building aid formula, for which an expense reimbursement approach is probably unavoidable, the cost allowances employed should be adjusted for regional cost differences, as the Regents have recommended.

**Tax Effort Formulas**

Two aid formulas that were added with the 1993-94 changes attempt to address the needs of school districts facing conditions likely to cause a high local tax effort (largely those in high cost-of-living areas). Although the principle of providing aid to districts facing these conditions is sound, these two formulas are extremely poorly designed and an examination into their calculation and effect helps to explain why a complete overhaul of the aid formulas is necessary. The tax effort formula components, as is the case for many other categories of aid, are based more on computer run distributional concerns than on theoretical principles. Because of their flawed design, these formulas tend to drive wide swings in aid based on only minor changes in the underlying data — school districts measuring up as very tax-poor in one year may drop out of the aid formula in the next, and visa versa. Aid under these formulas is also driven primarily by how much districts spend or tax and thus the incentives provided are completely opposite to a goal of cost-control. School districts are rewarded for increasing expenditures and penalized for reducing them.

**Tax effort aid** is the smaller of these two aids and provides $141.7 million in aid to 360 school districts in the 1996-97 school year. Only very wealthy districts (those with property wealth greater than twice the state average) are ineligible for aid. This aid is provided through a bizarre calculation as follows:

> $912.48 multiplied by the *tax effort percent* multiplied by the number of pupils[19]
>
> The *tax effort percent* is computed as the positive result of the 1993 residential property tax levy divided by 1994 adjusted gross income (but no greater than seven), minus three and then divided by four.

Readers failing to discern the rational underpinnings of this formula should not be discouraged. Generally, the data on residential property taxes and income provide a gross measure of tax effort, but the remainder of the calculation really has no explanation. The absurdly specific $912.48 factor, for example, is completely meaningless, other than that it probably produced a desired distribution in the year of enactment.

This formula is also poorly designed because the data feeding into it and its method of calculation can produce wide swings in aid. A district may be completely ineligible for aid one year and eligible for large amounts of aid in the next; the reverse situation also occurs.

**Tax equalization aid**, the larger of the two aid categories, produces even wider swings in aid. This aid is calculated based on school district expenditures per pupil, aid per pupil calculated under the operating aid formula, and the district's property wealth per pupil. This formula basically covers (on a dollar for dollar basis) school district expenditures that are in excess of the sum of their operating aid and the per-pupil yield of a property tax levied at a tax rate of 19.5 mills.[20] The aid calculation does cut off aid at an expenditure level of $8,000 per pupil, but the incentive offered still cannot be said to be consistent with a cost-containment goal. Average operating expenditures are $6,351 per pupil[21] and only 125 districts spend more than $8,000, most of which are of very high wealth.

Tax equalization aid provides $345 million in aid for 137 school districts in the 1996-97 school year. Because this aid formula essentially provides a dollar in aid for each additional dollar spent, it is very sensitive to year-to-year changes in expense data. For the 1996-97 school year — even though there were no changes to the method of calculating aid — the formula produced a net

---

[19]Selected TAPU (for Total Aidable Pupil Units).

[20]Tax dollars per thousand dollars of property value.

[21]This statistic is the unweighted mean for 696 major school districts. The "state average" commonly used in the aid formulas is $5,850, but that figure is really the aggregate for the State as a whole and is heavily influenced by New York City and the other large urban districts, which tend to spend less on a per-pupil basis; a weighted average such as this understates the typical spending level seen in school districts.

increase in aid of $98.3 million. A total of 119 districts qualified for aid increases totaling $136.1 million and 30 districts lost $37.8 million in aid. Of the 119 districts gaining aid, 17 had their aid more than doubled and 57 had received no aid under this formula in the previous year. Thus, under the formula these districts were completely undeserving in one year and very deserving in the next: they received a total of $61 million in formula apportionments. On the other side, 30 districts experienced losses under the formula and 12 of these had their aid completely eliminated. For example, Buffalo gained $33 million in aid (although they were completely ineligible the year before), while Rochester lost $25 million (their aid went from $28.4 million to $3.8 million). Huge aid swings in school districts throughout the State resulting from minor changes in the input data cannot be justified. They clearly show how poorly designed the aid formulas are.

Both of these tax aid categories are included within the six aids subject to the transition adjustment, which means that the impact of the aid swings is muted. The caps and save-harmless protections will effectively prevent many of the large swings. In the case of big increases, two points are important. First, the swings in tax equalization aid are responsible for many of the larger overall increases in aid under the transition cap. The cap is based on the overall increase calculated among six aid categories, and districts are allowed an increase of either 1.52 percent, or 10.9 percent of their overall formula increase, if that is greater. In fact, many of the districts receiving the largest overall aid increases are heavily impacted by this year's tax equalization aid. Secondly, districts qualifying for the large increases this year, even if they are only due to a temporary data aberration, will probably continue to receive this aid indefinitely through the save-harmless provisions.

The criticism of these two formulas should not be interpreted to mean that the conditions faced by high-tax-effort districts in high-cost areas should be ignored. Rather, it is that better formulas should be used to more appropriately and predictably aid such conditions. An explicit adjustment for differential regional costs, for example, would go a long way toward meeting the needs of these districts, as could other revisions in the general approach to operating aid.

**Maintenance of Effort**

Another concept which must be considered in the context of moving away from expenditures as a reimbursement mechanism is "maintenance of effort." This term refers to any requirement that local tax effort be "maintained" when aid is increased.

There currently is no general maintenance of effort requirement for school districts, although there are a variety of individual expenditure requirements. There is also a component of the operating aid formula which is intended to encourage local effort — this is known as the "spend-to-get" tier.

The operating aid formula represents more than half of total aid. Under its provisions, all school districts receive aid based on a theoretical expenditure level of $3,900 (far below the average for all districts, which is $6,351). A second "spend-to-get" aid tier provides additional aid for a small share of expenditures over that amount (but up to a limit of $8,000). Part of the rationale for this mechanism is to advance equity by encouraging low-spending districts to increase their expenditures.

The spend-to-get tier is also intended to partially compensate for regional cost differences that would be reflected in spending levels.

The "spend-to-get" tier of operating aid is intended to serve as an alternative to a maintenance of effort device, providing an incentive primarily for low-wealth, low-spending districts to use aid increases to enhance their programs, rather than for tax relief. Because they have higher aid ratios, the theory is that the spend-to-get tier will provide a much greater incentive for low-wealth, low-spending districts than it will for high-wealth, higher spending school districts (for which no incentive is necessary or desired).

It is questionable how much of an incentive the current formula mechanism actually provides, however, for two reasons. First, a district's "approved operating expense level" is not reflected in formula aid until two years after it spends the money. Secondly, aid actually going to districts has been capped under the transition adjustment and so districts really have no assurance that additional formula aid will be received. The use of expenditures in the formula also contributes to instability in aid estimates and upward drifts in aid claims (sometimes referred to as "bumps").

Given all these problems with the current operating aid formula's spend-to-get tier, alternatives should be considered. One possible approach is to allow school districts meeting educational standards to spend their aid as they choose. It is entirely possible, for example, that in some areas of the State very good results can be achieved while spending far below average levels, and in such cases there is really no purpose to providing a fiscal incentive to spend more. Conversely, where standards are not being met, perhaps a much more strict maintenance of effort requirement should be imposed. The Regents have consistently called for strengthened maintenance of effort requirements, and have also endorsed easing controls on districts than are meeting educational standards.

✓ **School districts that meet educational standards should be free to use their state aid as they choose, including for the purpose of tax relief. Where standards are not being met, however, mechanisms should be considered to ensure that any additional aid provided is used to improve programs.**

Maintenance of effort is a vitally important concept in the context of increasing school aid to achieve program equity between the poor and wealthy school districts. The results of any such effort could be lost if increased aid is only used to lower local effort. Basing maintenance of effort requirements on the achievement of educational standards would link the finance system in a positive way to results. It also avoids the imposition of local effort requirements where they are unnecessary and potentially counter-productive.

Maintenance of effort is an issue of particular importance in the "Big Five" Cities, where the school districts are not fiscally independent of the municipal governments. One result of this arrangement is that school aid increases for these districts often result in a diminution of local support for schools rather than in program increases. The response to this situation over time has

been the addition of a variety of special aid categories and expenditure requirements for the Big Five city school districts; these special requirements have helped to satisfy education interests, but they have not resulted in any fundamental change of the existing system. School aid has often been used to provide funds to the Big Five Cities to help with their overall municipal financial needs. This is a basic school finance issue that needs to be resolved.[22]

**Mergers, Consolidation and Shared Services**

Shared services, consolidations and district mergers have proven themselves to be effective methods of enhancing cost-effectiveness.

Study grants are already available both for mergers and shared service ventures. Districts reorganizing (or merging with other districts) are eligible for generous incentives in operating aid and building aid, receiving up to 40 percent more than these formulas would otherwise have provided. Although it is certainly desirable to provide reasonable incentives for reorganization, there is a limit to the inducements that the State can offer without creating new inequities. Many local objections to district mergers cannot be overcome by aid incentives in any event. It should be noted that not many mergers have taken place recently, even with the generous incentives available.

Functional consolidation and shared services should also be encouraged, and since these activities can take place without mergers, they may be a more effective avenue to pursue. Study and incentive grants are already available; the incentive grants, in fact, were expanded in this year's budget.

A central issue in this area concerns BOCES (regional Boards of Cooperative Educational Services) vs. other ways of sharing services. BOCES are an entity that was specifically created and designed to provide shared services to groups of school districts. BOCES aid paid by the State provides an incentive for sharing services, because it is paid over and above operating aid. Sharing arrangements outside of BOCES do exist and can save money, but only services provided through BOCES receive the aid incentive.

This year's Executive Budget proposed allowing districts to opt out of BOCES and would have provided aid for shared services even if they were provided outside of BOCES, but both changes were tied to a large cut in BOCES aid. The problem is that, although efficiency and accountability have been at issue in the past, the regional BOCES provide occupational education and other services that many small, low-wealth and rural districts might not be able to supply on their own. Many believe that changes to the current system could result in the destruction of BOCES, and these districts would then be left on their own.

---

[22]An excellent brief on the topic can be found in the 1993 report from the New York State Special Commission on Educational Structure, Policies and Practices: *Putting Children First*. The brief is in volume II of that report: "Fiscally Dependent School Districts," by Donald Boyd.

The State Education Department has established a statewide task force to study BOCES issues including governance and organization, cost and quality, and the role of BOCES in supporting school reform efforts. The results of this study may be helpful in clarifying these issues.

## The Current Process

As is the case for many other vital issues in New York State, legislative action on school finance is largely limited to what takes place within the budget process. The budget process itself is drastically in need of reform. Each year's budget actions are taken in an atmosphere focused only on the immediate year's concerns and the process has no long-term focus or accountability.[23] The shortcomings of this process naturally impact the product, and the school finance system created by this process has been dramatically affected.

Each year, the question of what to do with school aid is caught up in the larger budget process. School aid is most often one of the last issues to be resolved in the budget negotiations. Rather than taking the rational approach of determining what the long-term needs are, the process is based on each year's budget dynamics, which are largely driven by unplanned fiscal exigencies and political concerns.

The process results in the annual putting aside of the long-standing issues of the unfairness of the property tax and the lack of equity in the distribution of aid. The legislative focus is primarily on the bottom-line computer run results and the "shares" of aid that various regions get that year. The opportunity to move forward toward an effective long-range solution is lost in the more immediate struggle over each year's distribution of state aid.

This process has produced an ungainly, complex school aid formula which fails to provide equity. It is widely known that state aid is complex — there are now more than 40 formulas and grant programs. This was not always the case, however. In 1974-75, for example, there were only three major categories of aid for school districts: operating, building and transportation. The State Education Department was able to put out a small booklet explaining the aid distribution to the public and some actually referred to it as an "elegant formula."

The current day complexity and convoluted nature of the aid system is the result of many years of manipulation of the formulas through the budget process. Each year the legislative leadership and the executive agree on some broad parameters for school aid, such as how much the year-to-year increase will be and on how, overall, the aid will be distributed among regions. The formulas and grant programs are then altered by technicians to achieve the desired result. Although the formulas were originally intended to reflect need, each year's manipulation is in truth most heavily driven by a politically determined distribution requirement. The focus is always on a single year's aid distribution rather than on conceptual concerns about need and how aid should be provided. The cumulative result of this annual patchwork is therefore quite naturally a jumble.

---

[23] A comprehensive discussion of these issues is provided in the State Comptroller's March 1996 report, *Budget Reform — Review of Issues and Proposals.*

**How Reform Would Help**

It is particularly difficult to address school finance reform in the current budget situation. New York State is in a poor financial condition and an even poorer fiscal situation.[24] The current budget process operates in a continual condition of crisis, with multibillion dollar budget gaps being faced each year. It is obvious that the State cannot move forward in a rational, planned manner to address equity in this environment.

As described elsewhere in this report, probably the best way, and certainly the most realistic way, to address equity is through a long-term plan to provide additional resources to the districts most in need. Such a plan simply cannot be executed, or even conceived, without a true long-term focus in the budget process. Without any improvements in long-term planning, the State will continue to suffer through annual budget crises and will continue to approach school finance with only a single year's needs and possibilities in view.

Executive Budgets for the past two years have proposed school aid cuts as well as some additional financial responsibilities for programs now covered by the State. Although these cuts and responsibility transfers have been avoided, school aid has been very constricted relative to trends in previous periods. The state-level tax cuts enacted with the past three budgets continue to put extreme pressure on resources, and the cuts were enacted without any plan on how to pay for them. It is clear that constricted local aid has been one result. This effect may well go beyond constriction of aid to actual decreases in the next several years, particularly if the economic situation worsens. The trade-off between state taxes and local aid is one of the critical issues which should have been better evaluated before the multiyear state tax cuts were enacted.

**Particular Issues for Schools**

The perennial lateness of the state budget causes problems in virtually all areas of government, but it causes particular problems for school districts. School districts outside of the largest five cities must submit their budgets to a public vote in the spring. These votes generally occur in May and June, and have had to take place in recent years before the state budget has been passed and therefore before school aid is known. This causes severe problems for school districts which must somehow guess at what their state aid will be. The result is that voters are asked to consider a school budget without really knowing how much state aid their district will receive, and therefore what the property tax levy will be. This year the situation was even worse than usual, because the budget was delayed far into the summer (passage occurred on July 13). School districts were faced with the prospect of having to file tax warrants (the legal instrument for imposing property taxes) without any knowledge of how much aid they would be receiving.

---

[24] A number of reports from the Comptroller's Office document this problem. See for example *The 1996-97 Budget: Fiscal Review and Analysis* and the *Comptroller's Report on the Financial Condition of New York State*.

This problem, of course, could be solved by having timely budgets, and there are a number of reform proposals that could help to ensure timeliness. One approach to this problem merits particular discussion — that of changing the State's fiscal year. New York State currently has a very short budget deliberation period, which is considered to be a factor in lateness. The period could be lengthened, either by submitting the budget earlier, or by establishing a later start date for the fiscal year, which is currently April 1. The dates of June 1 and July 1 have been suggested as alternatives. Obviously, the current school district budget voting process would be impacted by such a change.

One suggestion to deal with the school budget problem is to require the budget to be adopted one month prior to the beginning of the fiscal year. In the case of a June 1 budget, this would imply adoption by May 1, technically in time for a school the current budget voting process, although not providing much time for school district planning or much margin for error.

Another and perhaps better approach to dealing with a changed state fiscal year would be to determine aid in advance of the budget process. Many other states operate under such a system, including New Jersey. This predetermination of school aid would have the benefit of separating the aid policy debate from each year's budget difficulties. A more rational and far-sighted allocation might emerge if the Legislature were not most concerned with the immediate distribution shares. A lagged system such as this would also provide school districts with a much better planning time frame. On the negative side, however, school aid represents nearly one-third of the General Fund budget and it is likely there would be objections to separating the allocation of aid from the budget process.

## HISTORICAL SUMMARY OF REFORM EFFORTS

School finance has been a topic of some controversy in New York State almost continually since the 1960's. It has been taken up by a series of special commissions and task forces, which have issued voluminous reports.[25] A summary description of the major education task forces follows, including the circumstances of their formation, their major recommendations and any resulting actions.

### Commission on Educational Structure, Policies and Practices (1993)

This group was administratively created by Governor Cuomo under the provisions of the Moreland Act[26] in May 1993; eight members were appointed and the group was chaired by H. Patrick Swygert, then president of the State University at Albany. The impetus for the Commission's formation, in part, was the revelation that a Long Island BOCES superintendent had received a severance payment of over $1 million upon his retirement. This event stirred public discontent and crystalized existing concerns about the overall management of the educational system and its perceived lack of accountability.

As its genesis and title might imply, this group did not have a clearly defined mission. Its formal charge was to investigate the "expenditures, management and affairs of school districts and BOCES," and the executive order establishing it referred to a long list of concerns including governance, management practices, quality of educational programs, fiscal and accounting procedures, regulatory and statutory controls, and more. The financing system was generally covered in this charge, but it was not the primary focus, unlike the other groups described in this summary.

The Commission issued its recommendations in a final report in December 1993, which also presented a variety of related research. The recommendations consisted of a number of broad statements about avenues that should be pursued to enhance educational results, including early childhood education, integration of education and social service programs, improvements in professional development, and increased state intervention in poor schools. Recommendations specific to the finance system were as follows:

- The "big five" city school districts should be fiscally independent of their municipal governments.
- The austerity (or contingency) budget process should be altered to effectively cap school spending after school budgets are defeated.
- Commercial real property should be taxed on a countywide basis for school purposes.

---

[25]The task force reports and related research papers provide a great wealth of background on many of the topics considered in this report; the primary reports of the groups described here are cited in the bibliography.

[26]This act created permanent statutory authority for the Governor to unilaterally create and fund special purpose investigatory commissions.

The first two of these recommendations involve long-standing issues and are touched upon elsewhere in this report.[27] Sharing property taxes is also discussed elsewhere. Although the Comptroller has not endorsed it as a likely avenue for reform, the general approach of broadening the tax base beyond school district boundaries has long been advocated as a way of equalizing resources. The Commission's specific recommendation to share only commercial (or nonresidential) property taxes, however, is a special case and may actually have a *negative* impact on equity.[28]

**Salerno Commission (1988)**

The formal name of this group was the New York State Temporary State Commission on the Distribution of State Aid to Local School Districts. The Commission was jointly appointed by the Legislature and Governor Cuomo in August 1988. The effort grew out of a general dissatisfaction with the state aid formula, and the Commission had the specific goal of studying the formula and recommending reforms. A working group staffing the Commission included wide representation from the educational community and persons intimately familiar with the finance system. The eleven formal members included prominent educators representative of the several major advocacy groups as well as the chairs and ranking minority members from the Legislature's education committees. Its chair, Frederic V. Salerno, the president and chief executive officer of New York Telephone, was an outsider.

The Commission concluded its work by December of 1988 and issued its recommendations in a final report entitled *Funding for Fairness*. Although the Commission had much technical expertise, the recommendations on the aid formula were kept to a conceptual level. They did not truly come up with a new formula. This approach was intentional and was helpful in building consensus among the diverse interests represented. In the words of its chair, the report was a "framework" seeking to "blend idealism and pragmatism to structure a series of far-reaching recommendations that recognize the state's complexity and competing interests."

The general approach taken by the Commission was both a strength and a weakness. It was a key element allowing the group to reach consensus recommendations. The negative aspect of generalities, of course, is that they allow for wide interpretation. In the case of the Salerno Commission, this point is key.

---

[27] The issue of fiscal independence for the big city school districts is discussed in a preceding section. Reform of the contingency budget process has been supported by the Comptroller, although he has not supported simplistic caps.

[28] This results because of existing patterns in the location of industrial and commercial property. In lower-income areas, where the residential property may not be of high value, nonresidential property usually constitutes a larger proportion of the tax base. The sharing of *only* nonresidential property taxes can therefore redistribute resources from urbanized lower-income areas to relatively wealthier bedroom suburbs, where commercial development may actually be intentionally kept out. A recent study paper on this topic showed that sharing nonresidential property taxes would worsen the existing wealth-related disparities in spending, unless it were accompanied by a redistribution of state aid. This analysis is presented in: "Statewide Taxation of Nonresidential Property for Education," by Helen Ladd and Edward Harris, *Study on the Generation of Revenues for Education*, New York State Board of Regents (February, 1995).

The Commission's recommendations were reflected in Executive proposals, but they went largely unheeded in legislative actions for many years until 1993, when the enacted budget included a major restructuring of the aid formula. Although the changes made that year were referred to as reflecting the Salerno Commission recommendations, that description is not universally accepted. The reality is that the Salerno recommendations were so broad that any number of formulas might have been described as reflecting them. As this report has showed, there are serious problems with the current formula, and yet that formula was able to be described as reflecting the Salerno recommendations.

A selective summary of the Salerno Commission's major recommendations follows[29]:

- The linkages between the distribution of state aid and the needs of at-risk and disadvantaged pupils should be strengthened and funding should be increased for these pupils.

- Both socioeconomic conditions and educational achievement measures should be used to direct resources to needy and at-risk children and aid should be targeted to areas with great concentrations of such pupils.

- The basic pupil count used in the formula should be redefined to blend active membership (enrollment) and attendance.

- Assessment practices should be improved, with transitional mechanisms to cushion shifts in property values.

- Regional cost differences and regional differences in ability to pay should be explicitly reflected in the formula; a methodology not based on expenditures should be developed to measure the variation in unavoidable education costs.

The first two recommendations dealing with at-risk pupils and socioeconomic conditions were reflected in the 1993-94 changes, although certainly not in a manner without defect, as described elsewhere in this report. The latter three major recommendations listed here, however, have not been implemented.

In support of the principles espoused by the Salerno Commission, the 1993-94 formula changes did more heavily reflect the costs of educating at risk students and concentrations of such students. They also incorporated actual spending levels and tax rates more significantly in the formula, in a compromise solution intended to partially recognize differences in regional costs and ability to pay.[30]

---

[29]This summary is necessarily selective, and readers desiring more detail are encouraged to read the Commission's final report, ***Funding for Fairness***, the first volume of which is only 33 pages in length.

[30]Although, as described in the section on formula aid issues, these mechanisms may not effectively address regional costs and also pose other problems.

It must also be noted that, although the 1993-94 changes were announced as the most sweeping reforms in more than a decade, that formula has never been truly been implemented. The changes were accompanied by a "transition adjustment" providing save-harmless protections as well as caps on aid increases. This transition adjustment, rather than the formula, continues to govern aid payments today for virtually all school districts.

**Rubin Task Force (1982)**

The Rubin Task force was constituted in 1978 by Governor Carey and the Chancellor of the Board of Regents. Its chair, Max J. Rubin, was a New York City lawyer and a former Regent, who also had the distinction of serving on the Boards of Education both in Great Neck and in New York City. The group's official title was the Task Force on Excellence and Equity in Education; it was composed of 34 members representing business, labor, education and civic groups.

The Task Force was formed as the direct result of the initial finding in the *Levittown* case, at the Supreme Court level, that the State's system of financing education was unconstitutional because its heavy reliance on the property tax created fundamental inequalities between poor and wealthy school districts. The purpose of the group was to study the equity issue and recommend alternatives to the existing funding system.

The Rubin Task Force existed from 1978 until it issued final recommendations in 1982: *The Report and Recommendations of the New York State Special Task Force on Equity and Excellence in Education*.[31] The issuance of final recommendations in February 1982 was followed in short order by two major events. Governor Carey in a special message to the Legislature proposed a dramatic state aid formula revision which was funded by a one percent increase in the state sales tax. This plan, which would have substantially redistributed aid as well as increased in state funding overall, was quickly and decisively rejected by the Legislature. Perhaps more importantly, the Court of Appeals in its June 1982 *Levittown* decision completely reversed the earlier lower court decisions which had ruled the financing system to be unconstitutional. Without the pressure of pending legal action, the alterations to the formula which continued throughout the 1980's focused more on new categories of aid and increases for all, rather than on equity.

The Rubin Task Force was criticized for failing to arrive at a consensus recommendation on a new system. This criticism derived primarily from the fact that their September 1980 Interim Report included *five* aid simulations for potential new formulas, all of which would have increased state aid by approximately $1 billion.[32] In addition to providing a large aid increase, the alternative simulations also were generally very redistributive (i.e., they were "Robin Hood" proposals). The Task Force members, however, could not agree on a single formula simulation to present.

---

[31]The Rubin Task Force also issued several interim reports presenting research on a number of topics including equity, municipal overburden and regional cost variations. Much of this research not only remains relevant, it is today still unsurpassed in describing the underlying financial equity issues that remain unresolved.

[32]State aid in 1979-80 totaled only $3.6 billion, and so a $1 billion (or 28 percent) increase would equate to $2.8 billion today.

To be fair, it should be mentioned that the Task Force was originally created to "recommend alternatives" and not necessarily to arrive at a single solution. The widespread impression that they could not agree also tends to misrepresent the final result of the Task Force, which was a series of aid formula recommendations given in much greater specificity than those, for example, of the Salerno Commission.

Following, in simplified form, are the major recommendations of the Rubin Task Force:

- The State should share in a larger percentage of education costs.[33]
- Every school district should be required to meet a minimum expenditure level or tax effort.
- A maintenance of effort requirement should apply to school districts with below-average expenditures.
- Minimum aid guarantees (flat grants) and save-harmless provisions should be phased out.
- Aid formulas should be based on enrollment rather than attendance. Districts with high absentee rates should be required to develop programs to improve attendance.
- A cost index, such as a county public sector wage index or cost-of-living index should be used to adjust for regional cost differences.
- Additional weightings should be provided for special needs pupils and for districts with great concentrations of special needs pupils.
- Income wealth should be used in combination with property wealth to measure school district fiscal capacity. This fiscal capacity should be adjusted by a factor reflecting municipal overburden. Additional aid should be provided for school districts on the basis of socioeconomic conditions.

Only the last two of these recommendations can be said to exist in the current aid formula.[34] The Task Force's other major recommendations which were designed primarily to produce a more equitable system have not been adopted, although they continue to be discussed and advanced by a number of groups. Recommendations for such concepts as a minimum expenditure level may seem inconsistent with the debate of today which includes an emphasis on cost-control; they must be seen

---

[33]The Task Force also described with a great deal of specificity how this should be done: through a two-tier percentage equalizing formula with increased ceilings, including a first tier ceiling set at the 75th percentile of district expenditures. These specifics are avoided in the main body of this document only because these concepts have not been explained, nor can they be directly related to the complex mechanics in today's formula.

[34]And even these exist in garbled form. The recommendation, for example, that income be used in the formula was based on research on average household income levels and their relationship to educational spending. The wealth measure now used in the formula, income per pupil, is not truly a measure of average income level and actually disadvantages many areas that would be helped by a measure of household income.

in the context of the time and of the *Levittown* case which explicitly referred to spending disparities as evidence of unacceptable inequalities.

**Fleischmann Report (1973)**

The Fleischmann Commission was jointly appointed by Governor Rockefeller and the Board of Regents in 1969. This group responded to a number of concerns of the day, including the 1966 Coleman report, the *Serrano* case and general concerns about equity and equality of opportunity. The formal name was the New York State Commission on the Quality, Cost, and Financing of Education and the chair was Manly Fleischmann, a prominent lawyer without any extensive involvement in education.

The Commission's final report was issued in 1972: *The Fleischmann Report on the Quality, Cost, and Financing of Elementary and Secondary Education in New York State*. This report (in three volumes) presented scholarly research on educational finance problems and issues including equity, the state of education at the time, racial and ethnic integration in public schools, and aid to nonpublic schools.

The Fleischmann Commission's overriding recommendation for public school finance, however, was that schools should be fully state funded. It is said that the Commission's major recommendation had a life of only 72 hours.

Although the utopian vision offered by the Fleischmann Commission would have ended inequalities in the educational system, it represented too dramatic a departure from New York's tradition of local control. The legislative realities then and now preclude such a radical change. The Fleischmann recommendations simply would have ended disparities in spending and programs related to local preferences (collective bargaining, for example, would be conducted on a statewide basis). In many suburban areas where education is highly valued, the funding of programs going substantially beyond state requirements would no longer be possible, and yet these same school districts would be facing a higher tax burden to support the improved funding provided in other areas. It is easy to see why the Commission's recommendation received short consideration.

Clearly the Fleischmann Commission did not heavily weight practical considerations about legislative achievability. Their report, however, contains a great body of research and its discussion of equity and equality of opportunity is still relevant today. The report also cannot be faulted for failing to raise the major issues and their recommendations did address the problems described, even if they were not to prove politically acceptable. Lastly, a follow-up task force to the Fleischmann Commission was formed in 1973 which led to legislation in 1974 implementing some of the Commission's original recommendations. Among other things, weightings for handicapped and other special needs pupils were introduced to the formula as a result.

**Diefendorf Committee (1963)**

This was a joint legislative committee, although it was chaired by a Buffalo area banker, Charles Diefendorf. The Committee was formed in 1960 and issued a final report in 1963. Its mission was to examine "the immediate and prospective requirements of the State's public school

system ... the adequacy of existing revenue sources ... [and] the relationship between the State and its school districts."

Although the relevance of this Committee may not be immediately apparent, many of the formula provisions established as a result of this group still exist in today's formula. The Committee is also mentioned here as a useful point of contrast to more recent efforts. In short, this was the last time the recommendations of an education task force resulted in enactment of comprehensive reform.

The Diefendorf Committee, in very precise terms, defined and described the aid formula of the time and made explicit recommendations for a new one. The formula enacted was known as the "Diefendorf" formula and it remained in effect with minor modifications well into the 1970's. Components of it continue in today's formula: the basic structure of the aid ratios and the transportation and building formulas, for example, were developed by the Committee. Under the Diefendorf formula the State's share of education expenditures was raised to close to 50 percent toward the end of the 1960's.

It must be pointed out that the Deifendorf Committee operated at a time when the formula was simpler and school finance issues were debated in specific terms; many elected officials were themselves familiar with the formula components. Aid formulas in this era were actually enacted without accompanying computer runs; estimates were prepared by hand based on a sample of districts. The precise results for each district therefore were not known until aid claims were filled out. The current preoccupation with distributional concerns, in effect, could not have existed in the same manner in that era.

**Conclusions**

The lessons of these various task forces are many. To be successful, a task force's recommendations must be grounded in political reality, although to be excessively and only concerned with legislative practicality is to endorse what the current process has created. Successful leadership must strike a balance between vision and practical expediency. The failure of the Fleischmann Commission's recommendations and, to a lesser extent, those of the Rubin Task Force, demonstrate this. The more positive examples are the Diefendorf Committee and the Salerno Commission, both of which represented a legislative focus.

The need for a task force to create a unified recommendation is emphasized by the widespread perception of the Rubin Task Force as having failed to reach agreement. The value of consensus, however, is always somewhat in conflict with the value of specificity. The general nature of the Salerno Commission's principles, for example, allowed the 1993-94 changes to be enacted within their mantle, and it could be argued that this was really a failing of their recommendations in the first instance. Lastly, a task force must have a crisply defined mission and focus.

This background discussion leads to recommendations for the composition and structure of any future task force. To be successful, a task force should:

- Have a clearly defined, specific mission — to recommend a revised school aid formula, for example.

- Be of a manageable number of members with representation from the Legislature, the Executive, and the education community, including the major advocacy groups. Leadership neutral to the competing interests is desirable.

- An effective effort must bridge the distance between utopian perfection and practical reality, because the advocacy of unrealistic solutions is fruitless.

## SCHOOL FINANCE ACTIONS IN THE 1996-97 BUDGET

### Overview

General school aid was increased by $177 million for the 1996-97 school year; the major components of this increase are shown in Table 2 on the following page.[35] Although this is a total increase of only 1.8 percent and is below the level of inflation, it is a great improvement over the $117 million *cut* proposed in the Executive Budget. The increase is generally attributable to a modest unfreezing of operating aids, overall growth in expense-driven categories of aid, and other miscellaneous changes.

Operating aids were unfrozen, if only slightly. School districts eligible for more aid under the formula were allowed to receive a 1.52 percent increase or 10.9 percent of their overall formula increase, if that was larger. Save-harmless was preserved so that no district received less aid. Several other categories of aid were completely unfrozen, including "extraordinary needs aid," which helps districts with concentrations of disadvantaged pupils. This removal of the aid freeze is positive. Although the increases were not large enough to effectively improve equity, at least the backwards slide may have been slowed or halted. The allocations for textbook aid and software aid (which applies to both public and nonpublic pupils) were modestly increased. The effect of these changes on the aid distribution for the 1996-97 school year is shown in Table 3; the aid categories shown in that table are all computerized aids except for building and transportation aid, which vary widely from year to year due to fluctuations in capital expenditures.

The budget changed the way building aid is paid for new building projects, sharply cutting this category of aid. Previously the formula had reimbursed all new debt service payments made by districts on bond anticipation notes (BANs); these expenses are reimbursed at the rate specified by the building aid ratio calculated for this aid. Payment now will be limited to BANs issued or reissued prior to the date of substantial completion of a project. Reimbursement for regular debt service payments will be based only on the minimum requirements of the State Finance Law. This means that districts will be aided as if they were amortizing their debt over a 15-year period for new construction or a 10-year period for rehabilitation, even if they choose to pay off their projects earlier. These changes will lower state aid overall and will help limit unexpected increases in building aid claims, but they may also have the effect of discouraging school districts from paying off debts quickly.

---

[35]School aid computer runs released with the budget showed an overall increase of $217 million, but this net figure does not include a number of aid categories, such as the portion of aid for building projects paid on new debt service, which was cut significantly. These figures are for general school aid and exclude other education programs such as preschool special education.

## Table 2

## Summary of School Year Aid Changes in 1996-97 Budget

| | 1995-96 School Year | 1996-97 School Year | Change Amount | Change Percent |
|---|---|---|---|---|
| | ( ---------- $ in Millions ---------- ) | | | |
| Operating Aid | $5,445.75 | $5,427.42 | $(18.33) | -0.3% |
| Tax Effort Aid | 136.34 | 141.70 | 5.36 | 3.9% |
| Tax Equalization Aid | 247.05 | 345.37 | 98.32 | 39.8% |
| Gifted and Talented | 13.74 | 14.59 | 0.85 | 6.2% |
| Limited English Proficiency | 61.49 | 61.40 | (0.09) | -0.1% |
| Computer Hardware | 10.38 | 10.47 | 0.09 | 0.9% |
| Transition Adjustment | (329.35) | (326.10) | 3.25 | -1.0% |
| Subtotal* | $5,585.40 | $5,674.85 | $89.45 | 1.6% |
| Extraordinary Needs Aid | 422.90 | 464.57 | 41.67 | 9.9% |
| ERSSA | 23.17 | 40.09 | 16.92 | 73.0% |
| Subtotal | $6,031.47 | $6,179.51 | $148.04 | 2.5% |
| Excess Cost - Public | 1,316.97 | 1,324.00 | 7.03 | 0.5% |
| Excess Cost - Private | 101.60 | 106.29 | 4.69 | 4.6% |
| BOCES | 311.77 | 335.43 | 23.66 | 7.6% |
| Big 5 Special Services | 118.64 | 120.16 | 1.52 | 1.3% |
| Reorganization - Operating | 24.14 | 26.61 | 2.47 | 10.2% |
| Continuing Growth | 79.66 | 0.00 | (79.66) | -100.0% |
| Growth | 57.14 | 68.46 | 11.32 | 19.8% |
| Textbooks | 110.49 | 113.94 | 3.45 | 3.1% |
| Computer Software | 8.83 | 10.56 | 1.73 | 19.6% |
| Library Materials | 11.73 | 12.40 | 0.67 | 5.7% |
| Subtotal** | $8,172.44 | $8,297.36 | $124.92 | 1.5% |
| Building (incl. reorganization) | 532.15 | 590.27 | 58.12 | 10.9% |
| Transportation | 667.77 | 701.96 | 34.19 | 5.1% |
| Subtotal | $9,372.36 | $9,589.59 | $217.23 | 2.3% |
| Small City School Districts | 81.66 | 81.66 | 0.00 | 0.0% |
| Categorical Reading | 63.95 | 63.95 | 0.00 | 0.0% |
| Improving Pupil Performance | 66.35 | 66.35 | 0.00 | 0.0% |
| Teacher Support Aid/Grants | 37.48 | 57.48 | 20.00 | 53.4% |
| Subtotal*** | $9,621.80 | $9,859.03 | $237.23 | 2.5% |
| Building BANS/New Debt | 113.28 | 47.00 | (66.28) | -58.5% |
| Bilingual | 11.20 | 11.20 | 0.00 | 0.0% |
| Magnet Schools | 127.75 | 132.45 | 4.70 | 3.7% |
| Employment Preparation Ed | 94.18 | 96.18 | 2.00 | 2.1% |
| Other Aid/Grant Programs | 67.21 | 66.30 | (0.91) | -1.4% |
| GRAND TOTAL | $10,035.42 | $10,212.16 | $176.74 | 1.8% |

* Categories shown in Table 1: Potential Redistribution of Aid under Current Aid Formulas.
** Categories shown in Table 3: Distribution of Aid for the 1996-97 School Year.
*** Categories used to compute total 1995-96 aid per pupil in decile & regional comparisons.

Source: State Education Department Computer Runs & Estimates of 7/13/96

**Table 3**

## Distribution of School Aid for the 1996-97 School Year

**(All Major Computerized Aid Categories Except Building and Transportion Aid)**

| Region/Group | 1995-96 Enrollment | Combined Wealth Ratio | Operating Expense Per Pupil | 1995-96 Aid Total for 18 Aids* | 1996-97 Aid Total for 18 Aids* | Net Change in Aid | % chg (Net) | Total # of Districts | Number of Districts: Gaining Aid | Number of Districts: Losing Aid | Aid Gains | Aid Losses |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Statewide Total** | **2,794,281** | **1.171** | **6,346** | **8,172,439,453** | **8,297,363,475** | **124,924,022** | **1.53%** | **686** | **434** | **252** | **148,368,058** | **(23,444,036)** |
| **Big Five Cities:** | **1,174,346** | **0.750** | **5,484** | **3,399,111,301** | **3,453,433,632** | **54,322,331** | **1.60%** | **5** | **5** | **0** | **54,322,331** | **0** |
| New York City | 1,044,540 | 0.961 | 5,090 | 2,932,589,962 | 2,974,794,726 | 42,204,764 | 1.44% | | | | 42,204,764 | 0 |
| Buffalo | 46,970 | 0.517 | 5,938 | 206,809,083 | 212,702,405 | 5,893,322 | 2.85% | | | | 5,893,322 | 0 |
| Rochester | 37,958 | 0.551 | 5,458 | 136,626,420 | 139,613,318 | 2,986,898 | 2.19% | | | | 2,986,898 | 0 |
| Syracuse | 22,825 | 0.501 | 5,008 | 93,538,848 | 94,276,690 | 737,842 | 0.79% | | | | 737,842 | 0 |
| Yonkers | 22,053 | 1.218 | 5,928 | 29,546,988 | 32,046,493 | 2,499,505 | 8.46% | | | | 2,499,505 | 0 |
| **Rest of State:** | **1,619,935** | **1.174** | **6,352** | **4,773,328,152** | **4,843,929,843** | **70,601,691** | **1.48%** | **681** | **429** | **252** | **94,045,727** | **(23,444,036)** |
| Small Cities | 257,740 | 0.822 | 5,816 | 819,215,696 | 837,776,988 | 18,561,292 | 2.27% | 57 | 45 | 12 | 20,269,023 | (1,707,731) |
| Downstate Suburbs | 530,341 | 2.245 | 8,979 | 1,250,405,677 | 1,279,297,611 | 28,891,934 | 2.31% | 169 | 117 | 52 | 33,304,982 | (4,413,048) |
| Upstate Suburbs | 624,873 | 0.875 | 5,481 | 1,879,334,908 | 1,895,384,680 | 16,049,772 | 0.85% | 272 | 160 | 112 | 27,532,540 | (11,482,768) |
| Rural | 206,981 | 0.739 | 5,388 | 824,371,871 | 831,470,564 | 7,098,693 | 0.86% | 183 | 107 | 76 | 12,939,182 | (5,840,489) |

*Total for 18 aid categories on State Education Department "Combined Aids" computer run of 7/13/96, excluding building and transportation aid (which reimburse capital expense).

Although school finance reform was not achieved in a dramatic or broad sense, the direction of most of the changes was positive. In particular, there was a lot of movement forward in the accountability and cost-effectiveness areas. The budget contained actions in a number of areas described by the Comptroller's *Principles for School Finance Reform*. In fact, a majority of the suggestions were reflected in one form or another and virtually all of the proposals argued against were rejected. A comparison of the budget action with the specific suggestions under each area of the *Principles* is provided in a subsequent section of this report.

A number of initiatives aimed at increasing the cost-effectiveness of education were included with the budget. Incentive grants for shared services and consolidations were enhanced. The State Education Department is required to identify and disseminate information on cost-effective programs, actions and policies which may be successfully replicated. In the area of mandate reform, the State Education Department is directed to identify ineffective structures, policies, law or regulations. Some minor simplification of aid formulas also occurred.

In the area of accountability, a series of reporting and disclosure initiatives were enacted, including plain language budget requirements, school district report cards, BOCES reforms, and disclosure of school administrators' compensation. Many of the new requirements are very broad, however, and much remains to be worked out in regulations. These improvements in accountability were made without jeopardizing local control: proposals limiting or dictating local budget choices were rejected, as were "super majority" requirements for budget increases.

Reforms were made in special education for school age and preschool children. Many of these reforms were based on Executive Budget proposals, but the Executive's proposed transfers of responsibility and deep aid cuts were rejected. For school age children, main-streaming was encouraged by changing the funding mechanism for low-intensity categories of instruction. These services will now be aided under the general formula for educationally related support services (ERSSA) rather through "excess cost" special education aid, where aid is based on placements. Under the revised and unfrozen ERSSA formula, which supports services keeping pupils in regular education, school districts will now receive aid based on factors such as concentrations of poverty and additional placements will not generate additional aid.

Current funding responsibilities were maintained for preschool special education, but changes were made in evaluation and placement procedures and other areas to encourage less restrictive placements, greater accountability and lower costs. Many of these changes respond to criticisms made in the Comptroller's 1994 audit of the preschool program. The Executive's proposed shifts in responsibility for pupils placed in state-supported schools for blind and deaf children and summer school programs were also rejected.

**Aid Payment Practices**

School aid is largely paid out through formulas that are much like entitlements. Aid amounts are based on data such as pupil counts and expenditures and school districts often revise their aid claims after school aid projections are initially prepared. The result is that the State's liability for school aid payments can change significantly over time, usually increasing, at least in the aggregate. Owing to their frequent occurrence, such increases in school aid liability have acquired a familiar

appellation — they are referred to as "bumps." These bumps cause severe budget problems for the State, often in midyear, and measures to prevent or minimize their impact have been under discussion for some time.

The fiscal cost of data changes occurring during this year's budget cycle — the "bump" — was $93 million. Rather than absorbing this unanticipated higher liability, the enacted budget changed the payment schedule for several categories of school aid, allowing the State to "roll out" aid payments in an amount equivalent to the bump's impact. This roll-out of school aid payments from the 1996-97 fiscal year is a one-shot, and it is similar in approach to a roll-out included in last year's budget. This is an unfortunate trend, because roll-outs only provide a one-time benefit and are generally a bad fiscal practice — they simply push budget problems into future years.

This year's budget also made some prospective changes in aid claiming procedures to address the bump issue. This follows changes made last year for several categories of aid, but this year's action is much broader and more dramatic. Among other things, it would:

- Reduce the "statute of limitations" for local districts to modify aid claims, in a phased manner, from three years down to one year.

- Move toward using older, more stable data for computing aid through the formulas.

- Freeze "save-harmless" aid bases (even beyond the reduced period for modified aid claims).

- Limit current year aid payments for each district to the level estimated at the time of budget adoption — increased claims would not be paid until September following the close of the school year.

These changes will provide greater predictability in managing the payment of school aid for the State. The last of the changes listed above will effectively prevent any bumps from impacting the State's financial plan within the fiscal year — although increases in claims can still occur, they will be rolled out into the succeeding year. School districts will receive any increased claims later than they would have.

Limiting districts to their earlier aid estimates may also have unintended behavioral effects. In the past, it should be pointed out, school districts most often underestimated aid. Underestimating often occurred because (for districts) it provided a cushion against adverse financial events, allowed for good news between the original budget presentation in the spring and the tax levy implemented in the fall (based on updated estimates) and there was no real negative consequence to the districts for underestimating. With this change in the rules, however, there will be a direct negative consequence for underestimating. School districts will now have a completely opposite, but still perverse, incentive — they will in all probability now err on the side of overestimating. This incentive will be powerful, although the real impact may not be felt for several years, because the current year's aid estimates have already been completed under the old system. The result may be that in the future, the estimated aid increase at the time of budget adoption will be substantially over stated. From a budget control perspective, this is not a problem, but from a legislative standpoint, decisions about how much school aid to provide would be distorted.

A related issue is the level of appropriations for "prior year aid claims" — revised aid claims for earlier years. There is currently an immense, unfunded liability for prior year claims both for regular school aid and for the pre-kindergarten program of more than $1 billion. Liabilities are $654 million for regular school aid and $406 million for preschool and summer handicapped programs. Although the backlog in school aid claims has been building in recent years, it has never been at such a high level; at current appropriation levels, it would take at least 30 years to pay off the currently known claims. Prior year claims for the preschool handicapped program have not really been at issue in the past and the current backlog is largely related to processing changes undertaken by New York City (at the request of the State). The overall shortfall, however, is affecting all counties, and they are suing on the issue of the unpaid claims.

Although this problem was partially acknowledged by the Executive in mid-March, the original Executive Budget appropriations for prior year claims have not been increased. A provision relating to Medicaid recoveries for certain special education pupils may allow some additional funds to be directed to prior year claims, but not enough to fundamentally address the backlog. The aid claiming changes contained in this budget will help prevent the occurrence of such shortfalls in the future, but they do not affect the existing liability.

## COMPARISON OF BUDGET ACTIONS AND COMPTROLLER'S PRINCIPLES

The 1996-97 budget included positive actions in a number of areas covered by the Comptroller's *Principles for School Finance Reform*. A majority of the individual suggestions were reflected in one form or another, and virtually all of the proposals argued against were not enacted. The central issues of equity and property tax reform, however, are still very much unresolved. Thus, although school finance reform was not achieved in a dramatic or broad sense, the direction of most of the changes in the budget was positive. In particular, there was a lot of movement forward in the accountability and cost-effectiveness areas. The aid formulas were also slightly unfrozen, providing additional aid to needy areas; the aid allocations were not large enough to effectively improve equity, but at least the backwards slide that occurs when aid is frozen was avoided.

The following summary shows action or inaction point by point under the *Principles*. The detailed suggestions provided with the original *Principles for School Finance Reform*, released in February 1996, are listed below with a description of action taken under each item, in italics.

**Cost-Effectiveness**

- Consolidation, shared services and school district mergers must be encouraged; current incentives and study grants should be continued.

  ***Yes**. Current programs were maintained and the incentive grant program for shared services was expanded: grants are now set at 50 percent of the state savings (rather than limited to $50,000) and are available for up to five years (rather than one).*

- A statewide "best practices" registry should be established for school districts, including, for example, the results of Comptroller's audits and of the Regents' research on cost effectiveness.

  ***Yes**. The budget legislation requires the State Education Department to promote cost-effective operations by identifying and disseminating information on cost-effective districts and specific programs, actions, and policies which may be successfully replicated in other school districts.*

- Administrative costs must be curtailed where possible and aid incentives to encourage this should be considered. Such programs should recognize that administrative needs among districts vary considerably and that relative progress in reducing costs and not the existing share of expenditures is the most important measure on which to provide incentives.

  ***Partially**. No specific aid incentives were provided, but the Executive Budget proposal which would have been based solely on the existing proportion of administrative costs was rejected. Administrative cost issues are also addressed within the new cost-effectiveness mandate for the Education Department.*

- Aid formulas should promote flexibility and efficiency generally; simplification and consolidation of the formulas should be a priority.

  ***Yes, but small improvement.*** *Minor improvements were made, but no major simplification occurred. For example, "limited English proficiency aid" was consolidated within "extraordinary needs aid." Other administrative simplifications were included, although they were mostly driven by changes designed to limit upward revisions in aid claims. Despite the lack of major progress, at least the changes overall were in the right direction — that is, toward simplification and flexibility. There was notable improvement in the special education area (see below).*

- Aid for special education should be reformed to encourage efficiency and least restrictive placements (main-streaming). However, the effect of reducing state support in specialized areas should be carefully considered and additional costs should not be placed on school districts without also providing them with adequate programmatic authority.

  ***Yes.*** *Reforms were made in both regular special education and in the preschool program, although the funding mechanisms were not radically altered. The transfers of responsibility and deep aid cuts proposed by the Executive were not accepted.*

  *For school-age special education programs, main-streaming was encouraged by changing the funding mechanism for low-intensity categories of instruction. These services will now be aided under the general formula for educationally related support services (ERSSA) rather through "excess cost" special education aid, where aid is based on placements. Under the revised and unfrozen ERSSA formula (which supports services keeping pupils in regular education), school districts will now receive aid based on factors such as concentrations of poverty and additional placements will not generate additional aid.*

  *Current funding responsibilities for preschool special education were maintained, but a number of changes were made in evaluation and placement procedures and in other areas to encourage less restrictive placements, greater accountability, and lower costs.*

  *Pupils placed in state-supported schools for blind and deaf children will continue to be largely funded by the state; the Executive's proposal to transfer responsibility to local school districts was not accepted.*

- Mandate reform must ensure that state requirements are reasonable and do not drive up costs, but changes that simply lower standards should be avoided.

  ***Yes.*** *The State Education Department is directed to identify ineffective structures, policies, law or regulations. The Executive's proposed elimination of middle-school requirements for second language, technology, and home and career instruction was not enacted.*

**Accountability**

- A single, statewide budget vote/school board election day should be instituted to focus public attention on the process.

  ***No**. This item was under discussion but was not included in the final budget.*

- Improvements in local reporting and disclosure should be considered.

  ***Yes**. A number of changes were made including plain language budget requirements, school district report cards and disclosure of school administrators' compensation. The legislation is fairly broad, however, and much remains to be described in regulations.*

- But local school budget choices should be left to local school boards and voters; proposals that would limit, freeze or otherwise dictate local spending levels must be avoided.

  ***Yes**. These proposals were not accepted.*

- The contingency budget process should be reformed, including limiting the number of re-votes that can be scheduled, but simplistic caps on contingency budgets should be avoided.

  ***Partially**. The simplistic caps that had been proposed were avoided. Also, budget votes were extended to small city school districts under a new process limiting re-votes and making other reforms; although the Comptroller opposed votes in the small cities, the new process represents an improvement and may be extended to other districts in the future.*

- Unworkable budget vote requirements should not be imposed, including "supermajority" requirements.

  ***Yes**. These proposals were rejected.*

**Property Tax Reform and Relief**

- A special commission, as advocated by the Regents, should recommend administrative reforms to make assessments more rational and fair. Modern appraisal methods should be utilized and the State should move toward a regional property appraisal system.

  ***Partially**. An interagency task force was established, but its mission and time frame are limited. The task force includes participation from the Comptroller's Office, and is directed to study volatility in the real property tax base over time, changes resulting from administrative action, judgements or tax certiorari proceedings, and related issues; it must report to the Governor by November 15, 1996.*

- Circuit breaker expansion should be a tax cut priority, to provide relief through an income tax credit for seniors and others overburdened by property taxes. The Regents proposal for expansion would be a good start in this direction.

***Near miss**. Proposals for circuit breaker expansion and a new general credit for the elderly were in an earlier two-way legislative budget agreement, but were not included in the final budget. A new agricultural school property tax credit was included; although this is a form of targeted property tax relief, it does not address the overall regressivity of the tax.*

- Proposals capping or freezing local revenues should be avoided; the State cannot provide enough aid to make this approach workable. Beyond the issue of affordability, such proposals would essentially govern local spending through a state formula, eliminating local control without producing an efficient or effective allocation of resources.

  ***Yes**. Many such proposals were made, but all were avoided.*

- Increased general aid in combination with other reforms is the best approach to property tax relief; dedicated tax relief aid conflicts with equity and efficiency.

  ***Yes**. This was the approach taken.*

**Equity**

Short-Term: Aid freezes cannot continue indefinitely. Basic operating aids should be unfrozen this year, at least for the neediest districts. The resources could come from the Executive's proposed diversion of lottery funds.

***Yes**. Operating aids were unfrozen, if slightly. School districts eligible for more aid under the formula were allowed to receive a 1.52 percent increase or 10.9 percent of their overall formula increase (if that was larger). Several other categories of aid were unfrozen, including "extraordinary needs aid" (which helps districts with concentrations of disadvantaged pupils) and ERSSA (see description under special education). The proposed lottery diversion was rejected.*

Long-Term: Equity as a long-term goal must not be abandoned. New York State must move toward more equitable funding, for children and for taxpayers. Achieving consensus on this issue will be difficult, because there are no easy solutions, but it is a problem that we must continue to work on.

***No**. No real progress was made and most of the debate was diversionary, focusing on unrealistic proposals to eliminate or freeze property taxes.*

## Comparative National Statistics

As is the case in many other program areas, New York State spends much more on education than does the nation as a whole. Interstate comparative statistics are often cited in support of proposals to limit local school spending, or even to cut state aid. Although it is true that New York schools spend more, simplistic comparisons do not take into account the variations in cost of living, the level of service provided, the excellent programs offered in many areas, or the State's heavily urban population base, which includes many pupils with special educational needs.

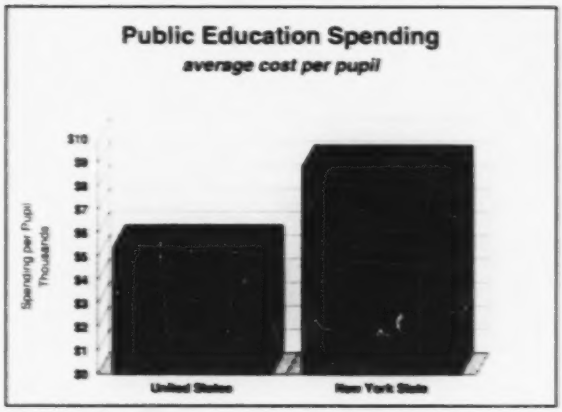



**Figure 3**

The most recently available national data show that New York State spends, on a per-pupil basis, more than 60 percent above the national average, and the only state currently spending more than New York is New Jersey.[36] When spending is considered relative to income or other state and local revenues, however, the picture changes markedly.

If educational spending is measured as a share of personal income, for example, New York State only slightly exceeds the national average, and in nine states education spending represents a higher share. In 1994, educational spending represented 4.5 percent of total personal income in New York State, whereas in the United States overall, it represented 3.9 percent.[37]

A recent compilation of national data demonstrates that New York State ranks very low comparing education revenue as a share of total revenue.[38] This relationship holds true for both state revenues only and for state and local revenues combined, as the following data show:

---

[36]Data for the 1993-94 school year, from the federal Department of Education. Other recent rankings also show Connecticut as spending more than New York State; this data tends to fluctuate over time and is updated frequently.

[37]Based on data for 1993-94 from the federal Department of Education and the NYS Department of Economic Development.

[38]*How Funding of Programs for Children varies among the 50 States*, Center for the Study of the States of the Nelson A. Rockefeller Institute of Government (January, 1996).

| Data for 1991-92: | State & Local Education Revenue as a % of total State & Local Revenue | State Education Revenue as a % of total State Revenue |
|---|---|---|
| **United States** | 38.2% | 33.1% |
| **New York State** | 31.5% | 28.9% |
| **Difference** | lower by 6.7 percentage points | lower by 4.2 percentage points |
| **Number of states with a higher percentage share** | 37 states | 33 states |

Source: National Center for Education Statistics data as presented in a CSS study (see earlier footnote).

These figures show that New York State spends a relatively lower share of its resources on education than other states. Moreover, as described in the previous section on equity, local school districts provide a higher share of education funding in New York than in other states.

States differ widely in terms of their need and fiscal capacity for financing education, and a number of factors are important in providing a context in which to view the gross statistics. Another consideration in reviewing national level data is that it is always out of date. Most published data currently available only goes through the 1992-93 school year; data for 1993-94 are generally only available in raw form at this point in time: thus most available data is at least three or four years out of date. As noted earlier in this report, there appears to be a slowing in the rate of growth of educational spending in New York State, and this will impact national comparisons.

Simple comparisons with national statistics also do not reflect the diversity of conditions in New York State school districts. For example, a simplistic reaction to relatively high national spending comparisons might be to freeze state aid. Such a policy response ignores the well documented fact that the highest levels of spending are found in the high wealth districts, where state aid is a much less significant source of revenue; a state aid freeze therefore has a much greater effect on lower-wealth school districts, where spending is already relatively much lower than for the State as a whole.

A variety of publications are available summarizing and interpreting national education data. The bibliography provided in this report provides a good start for those interested in pursuing this literature. The most prominent and universal feature of all educational funding systems, however, is the local property tax. In fact, the property tax accounts for more than 97.5 percent of the revenue in independent school districts, and in only four states did less than 96 percent of local revenue come from the property tax.[39] For example, in Kentucky and Pennsylvania income taxes are also used by

[39] *Public School Finance Programs of the United States and Canada 1993-94*, American Education Finance Association & the Center for the Study of the States of the Nelson A. Rockefeller Institute of Government (1995).

school districts, although the preponderance of local school revenues in those states still come from property taxes. In fact, property taxes are used in every state to support education.

**Activities in Selected States**

**Michigan** has recently accomplished a major revision of their financial system for supporting public schools. These changes grew generally out of the property tax limitation movement and legislative reflection of the anti-property tax mood of the public. The Michigan Legislature in 1993 enacted a bill eliminating (without replacement) the local property tax for schools. This action was really only an intermediate step, and the real changes were not implemented until the next year, when a proposition passed that increased the state sales tax from 4 to 6 percent (earmarking the additional revenues for education), restored a portion of the local property tax for schools, as well as implementing a *state* property tax and imposing revenue limitations on schools. Funded by the increase in the sales tax, the state's portion of funding in Michigan jumped from just over 30 percent in 1993-94 to nearly 80 percent in 1994-95.[40]

The Michigan model is not likely to be applied in New York State, for several reasons. First, the sales tax in New York is already imposed at a level that is considered to threaten competitiveness, and so a further increase could be seriously damaging. The concept of a statewide property tax is also unlikely to receive favorable consideration in New York (it has been proposed a number of times in the past and repeatedly been rejected).

In **New Jersey**, the educational finance system has been under litigation for some time, and last May Governor Whitman announced a new plan to address the current court challenge. The plan would affect the 1997-98 school year and is more a restructuring of current aid and standards than it is a completely new system. Although the plan includes a revised formula which redistributes aid, New Jersey's schools will continue to be financed by a mix of state aid and local property taxes.

The New Jersey courts have held that their state constitution guarantees a certain level of program equity among school districts. The Whitman proposal attempts to address this issue by implementing statewide curriculum standards linked to funding that define a "thorough and efficient" education system (T&E). This new aid is based on a foundation per pupil amount which is intended to be sufficient for all districts to provide a program meeting the curriculum standards. Districts receive a share of this foundation amount based on their relative wealth (not unlike portions of New York State's formula). Maintenance of effort provisions will apply to all districts, and so the additional aid cannot be used to reduce local taxes. However, districts will not be required to spend up to the state calculated T&E foundation amount unless they fail to meet the new standards.

Critics of the plan (including the advocate/plaintiffs in the current law suit) say it is merely a justification for maintaining the existing expenditure disparities. The redefinition and segregation of spending into "basic T&E" and "local leeway" will allow wealthy areas to continue to heavily

---

[40] "Reducing Local School Property Taxes: Recent Experiences in Michigan," C. Philip Kearney, *Study on the Generation of Revenues for Education*, New York State Board of Regents (February, 1995).

outspend low-wealth areas. The critics also suggest that there is no documentation that the aid provided is sufficient to allow districts to meet the new curriculum standards. This plan is still under consideration by the New Jersey legislature.

**Texas** recently implemented a plan designed to directly address the disparities in resources among their school districts. A system of regional taxing jurisdictions was implemented which had the effect of transferring taxes from the very wealthy districts to less wealthy districts. Districts at extremes of wealth had a number of options, including sharing their wealth or actually merging with less wealthy adjoining districts. The Texas regional tax system, which was originally driven by a court challenge to their finance system, has itself been declared unconstitutional, although the outcome of this action is not known at this time.

**Kentucky** in 1990 enacted the Kentucky Education Reform Act (KERA), which increased state support and redistributed funds among school districts. The impetus for this legislation was a court case challenging the equity and adequacy of school funding. As in other states, severe disparities existed between wealthy and poor school districts in Kentucky.

KERA abolished the existing school funding mechanism and created a new system in which the state guaranteed a base level program to all districts (with adjustments for certain types of pupils, transportation, etc.). The system also allows, at local option, school districts to exceed the basic funding amount, and the state will share in a portion of such spending under certain circumstances. The legislation also requires a minimum tax effort of school districts. The gap in spending per pupil between wealthy and poor school districts has been substantially reduced under KERA.

Reforms in other states have most often been triggered by court cases or referenda (or in Michigan's case, a legislative revolt). Changes in **California**, for example, have been spurred both by court actions and referenda. **Oregon**'s system has also been significantly altered as a result of referenda. A recent national comparative analysis found that litigation often increases state expenditures.[41] None of the major reforms recently implemented in other states, however, reflects implementation of an idea that is new to the debate in New York State. The reality in New York State is that there are no unexplored solutions, there is only a lack of action on any solution.

---

[41] *Separating the Wheat from the Chaff: How Much Do Schools Really Benefit When States Raise Taxes on Their Behalf*, for the National Education Association, by Steven D. Gold of the Urban Institute.

## BIBLIOGRAPHY

A great number of studies and reports are available on the topic of educational finance. This selected bibliography lists some of the reports most germane to current school finance issues in New York State.


State Comptroller's Office Reports

*School Finance Reform — A Discussion Paper*, Office of the State Comptroller (October, 1995): This paper provides a non-technical background on school finance, including a discussion of long-term trends, the equity issue and the alternative approaches to address equity.

*Principles for School Finance Reform*, Office of the State Comptroller (February 1996): A position paper describing the major issues to be addressed.

*Review of Current Proposals for Property Tax Relief*, Office of the State Comptroller (February 1996): Provides the Comptroller's critique of the major legislative proposals for property tax relief.

*Financial Data for School Districts for the fiscal year ended June 30,1994*, Office of the State Comptroller (August 1995): An annual statistical report providing a great deal of financial data for school districts. An update for the year ending in 1995 will be available soon.

*The 1996-97 Budget: Fiscal Review and Analysis*, Office of the State Comptroller (August 1996): The Comptroller's review of 1996-97 the enacted budget. This report is part of a series regularly issued by the Comptroller on state budget issues.

*Budget Reform — Review of Issues and Proposals*, Office of the State Comptroller (March 1996): Describes state budget reform issues and the problems that must be addressed, including a description of legislative and Executive proposals for reform and the Comptroller's position.

Education Department/Regents Reports

*Study on Cost-Effectiveness in Education*, NYS Board of Regents (March, 1996): The final product of the Regents symposium on cost-effectiveness. It includes a variety of research papers and the Comptroller's keynote address to the study group.

*Study on the Generation of Revenues for Education*, NYS Board of Regents (February, 1995): The final product of the Regents Study Group on the Generation of Revenues for Education. It includes a variety of research papers on property tax issues and alternatives for revenue generation, and also provides a summary of the policy options available to address these issues.

*Analysis of School Finances in New York State School Districts 1993-94*, State Education Department (October, 1995): An annual report presenting trend data on school finances.

*Seventh Annual School District Fiscal Profile Report, 1989-90 -- 1993-94 School Years*, State Education Department (May, 1996): An annual report presenting statistical data on school districts by region and type.

*State Formula Aids and Entitlements for Schools in New York State 1995-96*, State Education Department (August, 1995): An annual report describing the various types of state aid available to school districts, including an algebraic description of the formulas.

Special Task Force Reports

*Putting Children First*, New York State Special Commission on Educational Structure, Policies and Practices (December, 1993): The report (in four volumes) of Governor Cuomo's Moreland Act Commission; includes recommendations and background research papers.

*Funding for Fairness*, The New York State Temporary State Commission on the Distribution of State Aid to Local School Districts (December 1988): Report of the Salerno Commission, with conceptual recommendations for reform of the school aid formulas. Many of the Salerno recommendations were incorporated in the aid formula changes enacted in 1993.

*The Report and Recommendations of the New York State Special Task Force on Equity and Excellence in Education* (February, 1982): The final report (in three volumes) of the Rubin Task Force, the school finance group convened to discuss and address the issues raised in the *Levittown* case. Several interim reports from this Task Force also present research that is still relevant today.

*The Fleischmann Report on the Quality, Cost, and Financing of Elementary and Secondary Education in New York State* (1972): Research on educational finance problems and issues.

Resources for National Statistics and Comparisons

*How Funding of Programs for Children varies among the 50 States*, Center for the Study of the States of the Nelson A. Rockefeller Institute of Government (January, 1996).

*Public School Finance Programs of the United States and Canada 1993-94*, American Education Finance Association & the Center for the Study of the States of the Nelson A. Rockefeller Institute of Government (1995).

*How Much are Schools Spending*, the Education Commission of the States, or ECS (April, 1993). ECS is a nonprofit group publishing research on a variety of educational issues. A listing of their publications can be obtained by writing them at 707 17th street, Denver, CO 80202-3427, or calling (303) 299-3692.

This appendix contains a variety of tables providing additional detail on school district finances. Some of this data is referred to earlier in the reports, or presented graphically.

Table 4, below, presents the wealth data by school district deciles which is graphically portrayed in Figure 1.

**Table 4**

**Characteristics of School Districts Varying with Wealth**
Average Statistics for District Deciles

| | Deciles | # of Districts | 1995-96 Total Enrollment | Combined Wealth Ratio | 1994-95 Operating Expense Per Pupil | 1994-95 Average Tax Rate (mills) | 1995-96 Total Expense Per Pupil | 1995-96 Total State Aid Per Pupil | 1995-96 Computed Local Share $ | 1995-96 Computed State Share % |
|---|---|---|---|---|---|---|---|---|---|---|
| Poorest | 1st | 68 | 81,812 | 0.369 | $4,740 | 15.40 | $8,200 | $5,750 | $2,450 | 70.1% |
| | 2nd | 68 | 99,412 | 0.462 | $4,787 | 14.57 | $8,108 | $5,340 | $2,768 | 65.9% |
| | 3rd | 69 | 234,090 | 0.533 | $5,000 | 15.44 | $7,945 | $4,925 | $3,020 | 62.0% |
| | 4th | 69 | 151,666 | 0.607 | $5,199 | 16.65 | $8,424 | $4,790 | $3,634 | 56.9% |
| | 5th | 69 | 198,684 | 0.714 | $5,459 | 16.72 | $8,526 | $4,377 | $4,149 | 51.3% |
| | 6th | 69 | 229,927 | 0.843 | $5,925 | 17.01 | $8,812 | $3,755 | $5,057 | 42.6% |
| | 7th | 69 | 1,265,784 | 1.010 | $6,183 | 17.08 | $9,273 | $3,219 | $6,054 | 34.7% |
| | 8th | 69 | 259,211 | 1.286 | $7,091 | 18.39 | $10,040 | $2,329 | $7,711 | 23.2% |
| | 9th | 68 | 172,836 | 1.748 | $8,145 | 16.25 | $12,329 | $1,746 | $10,583 | 14.2% |
| Wealthiest | 10th | 68 | 100,859 | 4.167 | $10,977 | 11.83 | $16,853 | $1,232 | $15,621 | 7.3% |

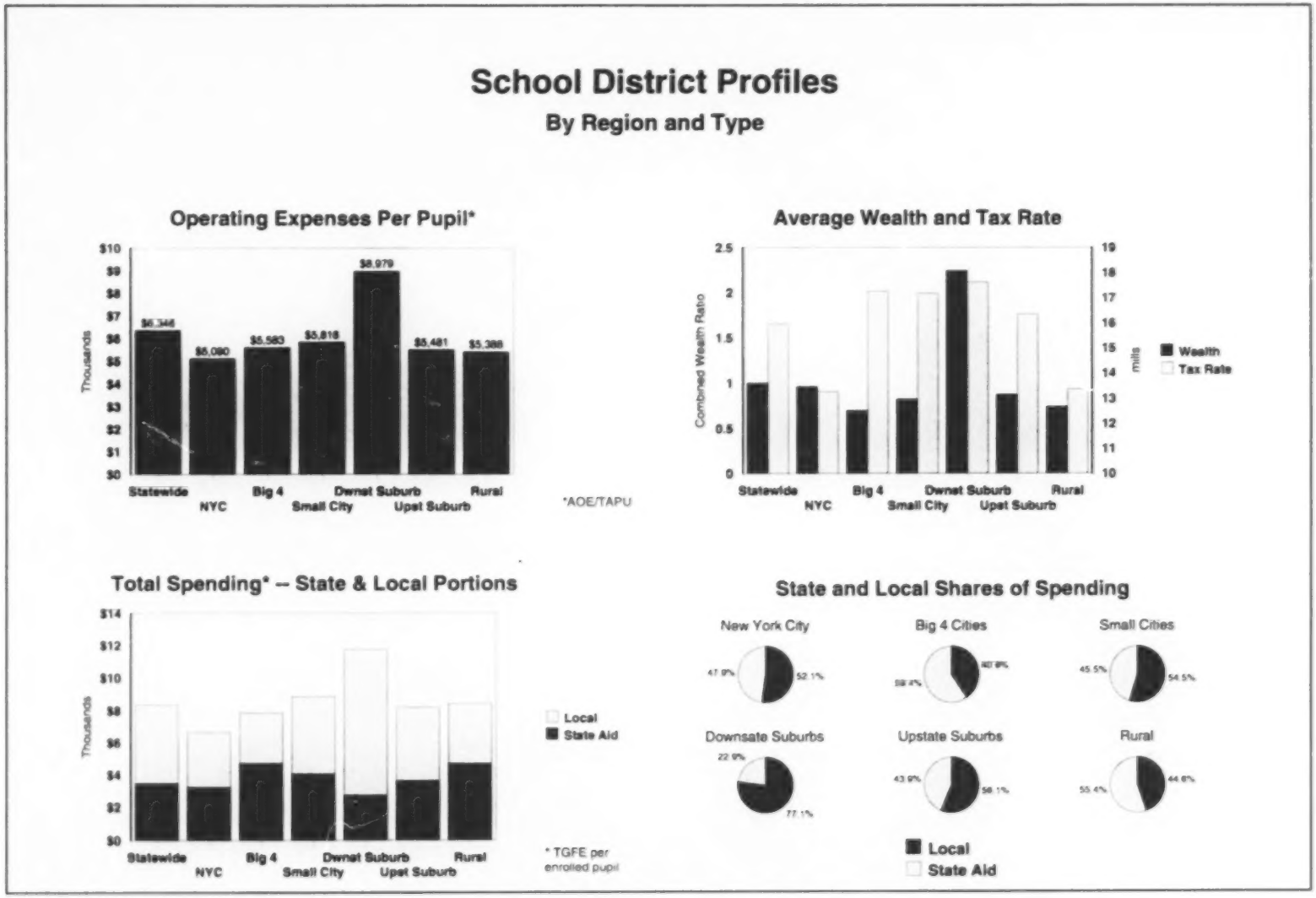
The values shown for the combined wealth ratio, operating expense per pupil, and the tax rate are the unweighted district averages, whereas the 1995-96 total expense (TGFE) per pupil and the state aid per pupil are the total figures for each decile; enrollment is used as the pupil divisor and the 1995-96 state aid totals include computerized aids plus several other major categories (Table 2 presents further information on the aid categories used). The local share (in $ and %) is computed based on TGFE and state aid per pupil.

**Table 5**

## School District Profiles: Region and Type Categories

| Region/Group | # of Districts | 1995-96 Total Enrollment | Combined Wealth Ratio | 1994-95 Operating Expense Per Pupil | 1994-95 Average Tax Rate (mills) | 1995-96 Total Expense Per Pupil | 1995-96 Total State Aid Per Pupil | 1995-96 State Share of Spending (Estimated) | Percentage of Statewide: Enrollment | Spending | State Aid |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Statewide | 686 | 2,794,281 | 1.171 | $6,346 | 15.94 | $8,363 | $3,443 | 41.2% | 100.0% | 100.0% | 100.0% |
| New York City | 1 | 1,044,540 | 0.961 | $5,090 | 13.27 | $6,672 | $3,197 | 47.9% | 37.4% | 29.8% | 34.7% |
| Big 4 Cities | 4 | 129,806 | 0.697 | $5,583 | 17.27 | $7,861 | $4,672 | 59.4% | 4.6% | 4.4% | 6.3% |
| Small Cities | 57 | 257,740 | 0.822 | $5,816 | 17.18 | $8,851 | $4,026 | 45.5% | 9.2% | 9.8% | 10.8% |
| Downstate Suburbs | 169 | 530,341 | 2.245 | $8,979 | 17.62 | $11,751 | $2,688 | 22.9% | 19.0% | 26.7% | 14.8% |
| Upstate Suburbs | 272 | 624,873 | 0.875 | $5,481 | 16.35 | $8,196 | $3,595 | 43.9% | 22.4% | 21.9% | 23.3% |
| Rural | 183 | 206,981 | 0.739 | $5,388 | 13.38 | $8,429 | $4,667 | 55.4% | 7.4% | 7.5% | 10.0% |

Note: The estimated state share of spending shown here is based only on data available on computer runs; the actual state share is somewhat lower.




70

71

**Figure 4**

## Table 6

### Listing of 56 Districts Receiving Aid Increases Greater than 5% in 1996-97

| District Code | District Name | 1995-96 Enrollment | Combined Wealth Ratio | 1994-95 Spending Per Pupil | 1995-96 Aid Total (B Aids in Transition Cap) | 1996-97 Aid Total (B Aids in Transition Cap) | Increase Received | % Increase Received | Additional Aid Withheld By Cap | Overall % Increase if Not Capped |
|---|---|---|---|---|---|---|---|---|---|---|
| 280401 | WESTBURY | 3,146 | 1.356 | 8,631 | 888,452 | 1,339,764 | 451,312 | 50.8% | 3,689,172 | 466.0% |
| 662300 | YONKERS | 22,053 | 1.218 | 5,928 | 8,204,186 | 10,617,365 | 2,413,177 | 29.4% | 19,726,086 | 289.9% |
| 580911 | EASTPORT | 931 | 1.222 | 6,645 | 471,753 | 607,276 | 135,523 | 28.7% | 1,107,812 | 263.6% |
| 580403 | DOBBS FERRY | 1,238 | 1.884 | 8,079 | 682,083 | 860,037 | 177,954 | 26.1% | 1,454,866 | 239.4% |
| 280229 | NORTH MERRICK | 1,248 | 1.196 | 7,061 | 1,244,698 | 1,528,411 | 283,713 | 22.8% | 2,319,159 | 208.1% |
| 661904 | PORT CHESTER | 3,174 | 1.458 | 6,297 | 1,213,712 | 1,444,805 | 231,093 | 19.0% | 1,889,029 | 174.7% |
| 280222 | FLORAL PARK | 1,642 | 1.459 | 6,133 | 540,197 | 642,124 | 101,927 | 18.9% | 833,192 | 173.1% |
| 280204 | NORTH BELLMORE | 2,154 | 1.319 | 7,948 | 2,493,907 | 2,963,655 | 469,748 | 18.8% | 3,838,872 | 172.8% |
| 010100 | ALBANY | 9,879 | 1.313 | 6,722 | 4,362,414 | 5,102,615 | 740,201 | 17.0% | 6,050,639 | 155.7% |
| 581010 | GREENPORT | 606 | 1.546 | 8,649 | 220,259 | 255,038 | 34,779 | 15.8% | 284,298 | 144.9% |
| 461300 | OSWEGO | 5,350 | 1.661 | 8,932 | 1,523,591 | 1,744,035 | 220,444 | 14.5% | 1,801,981 | 132.7% |
| 280212 | MALVERNE | 1,849 | 1.291 | 8,279 | 2,057,850 | 2,315,975 | 258,325 | 12.6% | 2,111,631 | 115.2% |
| 280201 | HEMPSTEAD | 6,398 | 0.701 | 8,876 | 12,863,544 | 14,468,865 | 1,605,321 | 12.5% | 13,122,400 | 114.5% |
| 280405 | NEW HYDE PARK | 1,412 | 1.755 | 7,958 | 492,413 | 553,167 | 60,754 | 12.3% | 496,623 | 113.2% |
| 561500 | PEEKSKILL | 2,700 | 0.89 | 8,193 | 5,420,304 | 6,060,457 | 640,153 | 11.8% | 5,232,811 | 106.4% |
| 660404 | HASTINGS ON HU | 1,337 | 1.808 | 8,827 | 887,621 | 990,055 | 102,434 | 11.5% | 837,330 | 105.9% |
| 280219 | EAST ROCKAWAY | 1,237 | 1.368 | 7,741 | 1,103,947 | 1,222,593 | 118,646 | 10.7% | 969,858 | 98.6% |
| 580501 | BAY SHORE | 5,021 | 1.037 | 8,389 | 8,466,248 | 9,345,291 | 879,043 | 10.4% | 7,185,575 | 95.3% |
| 280223 | WANTAGH | 2,868 | 1.343 | 8,053 | 3,323,793 | 3,668,578 | 344,785 | 10.4% | 2,818,385 | 95.2% |
| 280224 | V STR TWENTY-F | 1,093 | 1.42 | 8,989 | 634,158 | 699,777 | 65,619 | 10.3% | 536,392 | 94.9% |
| 621001 | MARLBORO | 1,981 | 1.456 | 6,981 | 1,062,959 | 1,172,834 | 109,875 | 10.3% | 898,153 | 94.8% |
| 280213 | V STR THIRTEEN | 2,094 | 1.319 | 7,301 | 1,813,836 | 1,995,486 | 181,650 | 10.0% | 1,486,508 | 92.0% |
| 621201 | ONTEORA | 2,387 | 1.436 | 7,764 | 1,889,473 | 2,075,809 | 186,336 | 9.9% | 1,523,170 | 90.5% |
| 280216 | ELMONT | 3,709 | 1.043 | 8,519 | 3,854,398 | 4,234,069 | 379,671 | 9.9% | 3,103,557 | 90.4% |
| 280225 | MERRICK | 1,831 | 1.624 | 8,353 | 1,602,372 | 1,759,648 | 157,276 | 9.8% | 1,285,630 | 90.0% |
| 280209 | FREEPORT | 8,756 | 0.826 | 7,343 | 12,383,359 | 13,573,591 | 1,190,232 | 9.6% | 9,729,333 | 88.2% |
| 580102 | WEST BABYLON | 4,[illegible] | 0.913 | 7,422 | 8,397,773 | 9,199,324 | 801,551 | 9.5% | 6,552,130 | 87.6% |
| 280206 | LEVITTOWN | 8,[illegible] | 1.116 | 7,783 | 12,330,209 | 13,484,065 | 1,153,868 | 9.4% | 9,431,987 | 85.9% |
| 660900 | MOUNT VERNON | 9,8[illegible] | 0.886 | 7,679 | 17,236,360 | 18,762,628 | 1,526,268 | 8.9% | 12,476,191 | 81.2% |
| 280230 | VALLEY STR UF | 1,299 | 1.476 | 8,917 | 878,291 | 955,624 | 77,333 | 8.8% | 632,148 | 80.8% |
| 580602 | RIVERHEAD | 4,366 | 1.262 | 7,658 | 3,968,719 | 4,317,968 | 349,269 | 8.8% | 2,855,042 | 80.7% |
| 580804 | SAYVILLE | 3,394 | 0.929 | 7,966 | 7,636,813 | 8,503,987 | 867,174 | 8.8% | 5,453,894 | 78.1% |
| 580905 | HAMPTON BAYS | 1,418 | 1.7 | 7,478 | 506,942 | 552,257 | 43,315 | 8.5% | 354,079 | 78.1% |
| 442111 | GREENWOOD LAKE | 827 | 0.942 | 6,279 | 1,110,822 | 1,205,018 | 94,396 | 8.5% | 771,631 | 78.0% |
| 280210 | BALDWIN | 5,179 | 1.276 | 7,704 | 6,423,697 | 6,961,784 | 538,087 | 8.4% | 4,396,494 | 76.9% |
| 280217 | FRANKLIN SQUAR | 1,666 | 1.4 | 7,406 | 1,339,097 | 1,450,538 | 111,441 | 8.3% | 910,957 | 76.4% |
| 131602 | SPACKENKILL | 1,661 | 1.406 | 7,400 | 1,031,096 | 1,114,892 | 83,796 | 8.1% | 684,976 | 74.6% |
| 580612 | BRENTWOOD | 13,236 | 0.59 | 7,170 | 37,070,113 | 40,070,777 | 3,000,664 | 8.1% | 24,528,370 | 74.3% |
| 580101 | BABYLON | 1,849 | 1.362 | 7,770 | 1,857,617 | 2,006,029 | 148,412 | 8.0% | 1,213,171 | 73.3% |
| 560809 | PLEASANTVILLE | 1,462 | 1.651 | 7,987 | 690,028 | 744,485 | 54,457 | 7.9% | 445,154 | 72.4% |
| 280252 | SEWANHAKA | 7,108 | 1.313 | 7,210 | 5,963,083 | 6,420,971 | 457,888 | 7.7% | 3,742,928 | 70.4% |
| 280803 | W. IRONDEQUOIT | 3,885 | 1.017 | 8,120 | 4,446,844 | 4,785,872 | 339,028 | 7.6% | 2,771,325 | 69.9% |
| 580106 | AMITYVILLE | 2,982 | 1.194 | 8,315 | 3,983,563 | 4,265,205 | 281,642 | 7.1% | 2,302,230 | 64.9% |
| 131201 | PAWLING | 1,210 | 1.442 | 6,091 | 949,134 | 1,015,905 | 66,771 | 7.0% | 545,806 | 64.5% |
| 580513 | CENTRAL ISLIP | 5,525 | 0.652 | 8,388 | 18,062,747 | 19,321,209 | 1,258,462 | 7.0% | 10,287,065 | 63.9% |
| 280801 | E. IRONDEQUOIT | 3,286 | 1.206 | 5,520 | 2,845,776 | 3,035,052 | 189,276 | 6.7% | 1,547,206 | 61.0% |
| 580502 | ISLIP | 2,903 | 1.02 | 8,047 | 6,609,920 | 7,041,835 | 431,915 | 6.5% | 3,530,617 | 59.9% |
| 580212 | LONGWOOD | 9,800 | 0.799 | 7,486 | 23,883,412 | 25,441,667 | 1,558,255 | 6.5% | 12,737,883 | 58.9% |
| 580503 | EAST ISLIP | 4,443 | 0.985 | 7,748 | 11,843,036 | 12,522,976 | 679,940 | 5.7% | 5,558,048 | 52.7% |
| 580109 | WYANDANCH | 2,275 | 0.386 | 6,735 | 7,696,140 | 8,117,938 | 421,798 | 5.5% | 3,447,817 | 50.3% |
| 030200 | BINGHAMTON | 6,476 | 0.734 | 5,203 | 9,857,312 | 10,394,339 | 537,027 | 5.4% | 4,389,830 | 50.0% |
| 580306 | MONTAUK | 355 | 4.453 | 9,361 | 97,748 | 10[illegible] | 5,314 | 5.4% | 43,444 | 49.9% |
| 010306 | BETHLEHEM | 4,573 | 1.236 | 5,924 | 4,057,897 | 4,2[illegible] | 220,495 | 5.4% | 1,802,403 | 49.9% |
| 261201 | PENFIELD | 4,877 | 1.233 | 6,486 | 4,718,276 | 4,963,102 | 246,826 | 5.2% | 2,017,836 | 48.0% |
| 580304 | SPRINGS | 567 | 2.218 | 8,635 | 161,863 | 170,296 | 8,433 | 5.2% | 68,940 | 47.8% |
| 661100 | NEW ROCHELLE | 8,460 | 1.701 | 7,427 | 3,349,836 | 3,522,043 | 172,207 | 5.1% | 1,407,681 | 47.2% |
| Average/Total for 56 Districts | | 220,337 | 1.307 | 7,459 | 288,905,091 | 315,970,578 | 27,065,487 | 9.4% | 221,241,997 | 85.9% |

BEST COPY AVAILABLE